

EUROPEAN UNIVERSITY INSTITUTE
Department of Social and Political Sciences

**The Socio-political Bases of
Regional Growth
in Western Europe**

Andrés Rodríguez Pose

Thesis submitted for assessment with
a view to obtaining the Degree of Doctor
of the European University Institute

Examining jury:

Prof. Colin Crouch (EUI)
Prof. Gøsta Esping-Andersen (U. di Trento, supervisor)
Prof. Yves Mény (EUI)
Prof. Mercedes Molina (U. Complutense de Madrid)
Prof. Carlo Trigilia (U. di Firenze, co-supervisor)

Florence, January 26th, 1996

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the first time I saw you, I was struck by your smile. It was a warm, genuine smile that made me feel like I had found a friend. I was so happy to meet you, and I was so glad that you were here. I was so lucky to have you in my life.

I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life. I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life. I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life.

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to my parents

I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life. I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life. I was so happy to see you, and I was so glad that you were here. I was so lucky to have you in my life.

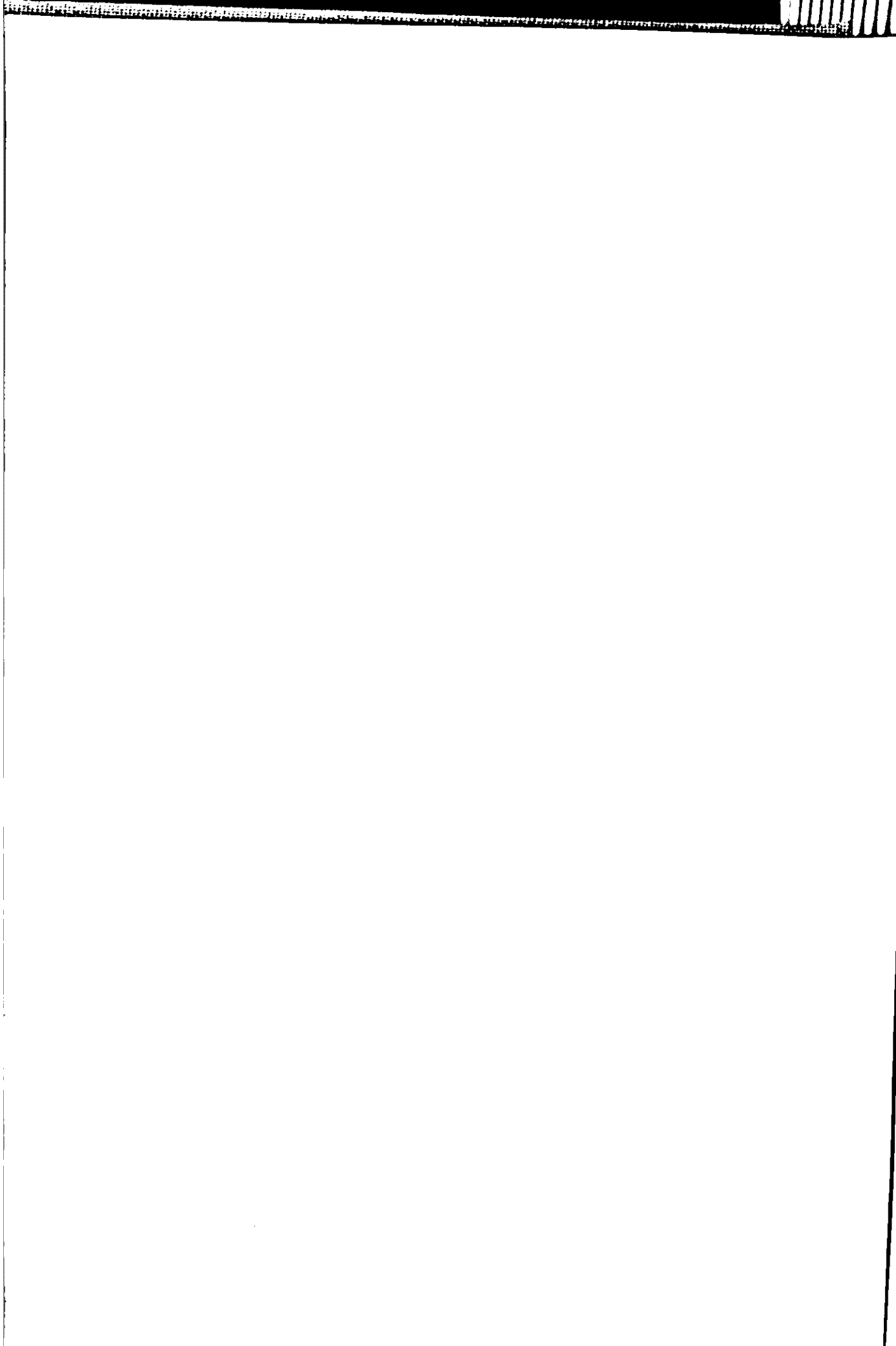


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The socio-political bases of regional growth...

It has often been claimed that in the last two decades the world has witnessed a profound process of socio-economic restructuring. A process of structural change which has clearly exceeded the margins of a cyclical capitalist crisis and is affecting almost every domain in our society. According to large sections of the literature, the origins of the restructuring process have to be looked for in the technological changes which have affected our society in the last few decades. Rapid technological change is increasingly affecting production structures and methods. Mass and Taylorist methods of production, which had been the norm since the turn of the century, are slowly dying out and being substituted by more flexible production structures which allow for a more rapid and adequate response to new consumer demands. It is the rise of the 'flexible economy'. Changes in production methods have been accompanied by a significant drive toward the globalization of the economy. World trade has greatly expanded in the last decades and national governments have slowly but decidedly been forced to give up their protectionist policies and to surrender to the new global markets.

The simultaneous processes of flexibilization and globalization of the economy have supposedly lead to a greater blurring of national policies and seem to have conferred a greater impetus to the local dimension. In a world increasingly dominated by global trends, regions and sub-national entities appear to have gained a substantial dynamism to the detriment of nation-states. The rise in local competition, local markets and local strategies are increasingly being hailed as effects of the process of socio-economic restructuring, and the regional and local dimension have come to be regarded as the genuine unit of analysis of the flexible production era.

Running parallel to the economic transformations, important social and political changes have been detected on a global scale. Social changes have been characterized by deep transformations in class structure. The organization of society across classes has been the subject of a serious revision by the literature in recent years. For some, we are driving towards the breakdown of the class structure as it has long been conceived and accepted. For

others, traditional classes are undergoing a severe process of remodelling. Together with changes in the class structure, the social realm is being altered by transformation in the labour market. During the last two decades, most Western European countries have experienced levels of structural unemployment which were almost unknown until then. And despite the persistence of high unemployment levels, most economies have been able to progress at a significant rate. The new era has also witnessed a decline in the strength of trade unions and the rise of precarious, temporary or informal types of employment. The culture of full employment is little by little losing ground and new forms of relations in the labour market are taking its place. New sorts of class division based on job status seem to be emerging: a class made up by those enjoying permanent jobs; another by those enduring long term unemployment, and a growing mass of workers who tend to be permanently in and out of the labour market.

Changes in the political realm have not lagged behind. The collapse of the Eastern block and the redefinition of the post-war strategic alignments have provoked a substantial shuffling around of the European map and greater international instability. In addition, political integration processes experienced a new impetus. The second half of the 1980s and the early 1990s have been featured by a significant *élan* in the process of European integration. Not only progress was made in the deepening of the European Community, which ultimately led to the signature of the Maastricht Treaty and the foundation of the European Union, but also new members were admitted, and demands of admission have soared. In other parts of the globe, integration has also advanced. The North American Free Trade Association (NAFTA) has been created and similar organization in South America and the Far East have gained in vigour.

Political changes have, however, not been limited to the international arena. Within nations, voting patterns have undergone serious transformations. There has been a decline in class voting and party realignment is becoming the common rule. Contrasts between left and right parties are increasingly veiled as political formations try to attract a larger electoral spectrum and become catch-all parties. Moreover, new parties have been formed around new

and critical issues which had been relatively disregarded by traditional parties, and there has been a revival of regional parties and regional vote in numerous parts of Europe.

In sum, according to large sectors of the literature on socio-economic restructuring, the new structures emerging from recent transformations greatly differ from the previous structures, which were the result of a society based on a certain model of production. We are thus witnessing the emergence of a new system -which can be labelled as the flexible production system or the post-Fordist system- that is opposed to the mass production or Fordist system, which prevailed in most advanced countries since the turn of the century.

And yet, when one considers growth rates, the much heralded opposition between the mass production and the flexible production eras is hardly identifiable, outside certain emblematic spaces. Regional growth patterns in some areas of Europe in the post-Fordist period differ only slightly from those observed in the Fordist era. This fact raises interesting questions about the conditions under which economic growth is accomplished. Why are growth rates so resistant to change in certain spaces, and why do they seem to follow long term patterns, when everything else seems to be changing? Are there forces which tie down growth levels even in periods of profound changes, or is it that the process of transformation is being overstated?

The hypothesis driving this thesis is that social and political conditions connected to economic growth become more significant -or perhaps more visible- as a result of the process of socio-economic restructuring and of the transformation undergone by the traditional locational factors; that the supposed emergence of a new territorial structure is conditioned by factors which until recently had been either disregarded or considered as not robust enough to impinge on growth rates, and which influence processes of change to a larger extent than what has been supposed by large sections of the literature.

The four chapters and the conclusion that follow will try to test this hypothesis on a cross-sectional basis in Western Europe. The first chapter deals with how the scientific

literature has regarded the process of socio-economic restructuring and the drive away from the Fordist model, and how this has affected growth theory, before formulating a theory about why there should be a more significant, or at least more visible, relationship between economic growth and regionally specific social and political factors.

Chapter II addresses a question that has been taken for granted by certain sectors of the literature, namely, the adequacy of regions as a post-Fordist unit of analysis. It then continues with a study of growth rates across Western European regions in order to establish groups of regions according to their growth behaviour which will later act as the base for the empirical analysis.

Chapters III and IV try to verify whether there is an association between place specific social and political conditions and growth rates in the post-Fordist Western European regional context. The chapter on the social basis of growth tries to test the hypothesis established in the first chapter about the connection between large sets of social variables and economic outcomes, whereas the fourth chapter does the same with a much more reduced set of political variables at a regional level. This last chapter adopts a somewhat experimental and Popperian approach to the question of the association between regional politics and regional growth: different statistical tests are conducted in order to determine whether there is a significant association between claims made in the literature about the role of certain kinds of political regimes and economic growth.

I would not like to conclude this introduction without acknowledging the advice, help and support of the numerous people who have in some way or other participated in the completion of this dissertation, and who, of course, are by no means responsible of its shortcomings. Although it is quite difficult to enumerate all the people who have participated, since there is always the risk of forgetting someone, my gratitude is specially directed to the following persons.

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The socio-political bases of regional growth...

job as supervisor of this project. He has not only fulfilled his task with extreme diligence and promptitude, but has also provided very helpful insights about the weaknesses of previous papers. A great deal of the theories and ideas present in this thesis have been the result of long discussions with him, and of his great capacity to adapt his broad knowledge of scientific literature stemming from various fields into useful research questions and methods. But I am even more indebted to him for his contribution in my formation as a researcher. Throughout my already long personal relationship with him I have learned a great deal from his rigorous and upright approach to research, and he has been a very important source of support in times of scepticism on my own capacities.

I am also very grateful to Prof. Carlo Trigilia. In a series of long and very fruitful conversations with him, I have taken advantage not only of his enormous expertise on the topic I was treating, but also on his original, but nevertheless extremely rigorous and accurate, ideas on how to approach the question of the complex inter-relationship between socio-political conditions and economic growth. His criticism on previous papers has played an essential role on the final result. Much of the originality of the paper and none of the shortcomings are a direct result of his supervision.

Prof. Mercedes Molina has also furnished very useful ideas along the way. In spite of a long personal relationship which now goes back to more than seven years, she has been capable of producing a thorough criticism of my papers, which has always stimulated my will improve as a researcher. Her strong determination and her support has also been a extremely helpful motivation for the completion of this thesis.

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CHAPTER I

THE THEORETICAL FRAMEWORK:

SOCIOECONOMIC RESTRUCTURING AND GROWTH THEORY

I.1.- PRODUCTION CHANGE AND SOCIO-ECONOMIC TRANSFORMATIONS.

Social scientists generally agree that in the last two decades we have witnessed a deep process of socio-economic restructuring in the Western World, which has led to the decline of the traditional 'Taylorist' system of mass production and the establishment of what has been called the *postindustrial society*. The former, identified under the label of mass production or Fordist system, was based on principles such as the rationalization of labour, vertical integration, the minimizing of the required general education and training, the hierarchical control of company branches, and the application of Taylorist principles to work (Boyer, 1989).

The establishment of the model of mass production was connected to the emergence of a social order which, according to liberal theorists, was characterized by a class structure reflecting to a great extent the hierarchical organization of the mass production firm. This social structure was dominated by a large middle class, which emerged from "the domestication of the working classes through full employment, social citizenship, and prosperity" (Esping-Andersen, 1996). The resulting *new middle class* was made up mainly of skilled manual workers and nonmanual white collar employees, who had benefitted from greater possibilities of upward social mobility (Blau and Duncan, 1967; Bell, 1973; Kerr, 1983; Goldthorpe, 1992), from an enlarged access to education and from greater political representation, reflected in the rise of trade unions and left wing social democratic and socialist parties. Furthermore, the 'industrial' middle class was protected by a large social cut cushion provided by different versions of the welfare state (Esping-Andersen, 1990).

The shift in the system of production and the process of socio-economic restructuring, which began during the early 1970s, are said to have shaken the foundations of the established economic, social and political orders.

As a result of changes in the technological and informational fields, the globalization of the economy and deregulation trends, several challenges affected the prevailing production order. First of all, there was a large under-utilization of equipment and a listless and inadequate reaction to consumer demands. There were also important time lags and costs in passing from innovation to effective production, with vertical integration and the internationalization of the production process becoming too rigid a system to cope with small batch production, more adapted to changes in consumer demands. Moreover, hierarchical organization in the work chain was subject to an increasing rejection by better educated and trained younger generations (Boyer, 1989; Cooke and Morgan, 1993).

Hence, since the beginning of the 1970s and especially during 1980s, the former highly capitalized units and centralized production methods have endured long lasting crises everywhere in the Western World, and the advanced First World countries have undertaken serious processes of industrial restructuring in order to remain competitive. Large plants in several sectors, which formerly served to maximize economies of scale and reduce production costs, have become too rigid to comply with new trends in consumption. Very rapid technological innovation and innovation diffusion have threatened the whole concept of vertical integration. Failures in the organizational structure of companies have become more evident and the lack of on place decision-making organizations in many branches of big firms has resulted in a belated response to challenges and increasing economic inefficiency.

Companies and firms have been forced to a larger or lesser extent to readapt their structures to the changing conditions in order to remain competitive. The remodelling of organizational schemes has been primarily aimed at optimizing manufacturing, decentralizing and flexibilizing production decisions, reducing costs, and improving the quality of the final product (Gottdiener, 1989; Cooke and Morgan, 1992a). The reorganization of production means has led to the establishment of new company networks and to the reinforcement of links between firms and the surrounding environment. As a consequence, the new competitive postindustrial firm is becoming increasingly capable of diversifying and

flexibilizing its production, of keeping costs low and of raising the quality and of renovating the links between manufacturers and consumers (Boyer, 1989).

From this perspective, it could be argued that the scope of the crisis of the system of mass production has transcended the limits of a capitalist cyclical crisis, and influenced society as a whole. Although production structures were the first thing to be struck by changes, the process of socio-economic restructuring has also affected -to a larger or a lesser extent- the social and political systems identified with mass production. It has been claimed that a large and homogeneous sector based on the existence of highly-unionized classes of skilled and unskilled blue-collar workers began to crumble with the downfall of Fordist production plants and the shift from economies of scale to economies of agglomeration and scope (Storper and Scott, 1989; Scott and Storper, 1992; Clark and Lipset, 1991; Clark, Lipset and Remple, 1993). Similarly, the flourishing middle class made up fundamentally of blue and white collar workers has been hit by an increasing fragmentation (Rodgers and Rodgers, 1989; Esping-Andersen, 1993 and 1996). The motor of social change has been the processes of what has been known as the 'dualism' and 'segmentation' of existing social classes, which started to operate under the new socio-economic conditions. The decay of the 'Taylorist' mode of mass production entailed a broadening of the gap between highly qualified and well-paid stable wage-earners and an increasing army of unstable workers. Under these conditions, work stability has become less widespread and individuals alternate periods of low-paid marginal jobs¹ with occasional periods of 'idleness', due to

¹ As Joachim Hirsch indicates: "The 'post-taylorist' rationalization of the work process, both regarding actual production as well as services and administration, provokes a double division in society. Within 'modern' world market-oriented industry and financial sectors the gap between the 'established', highly qualified and well-paid wage earners and the 'precarious', fluctuating and low-skilled workers is increasing [...]. On this basis marginal industrial and service sectors are erected. This marginal sector fills with small industrial, craft and trade activities, the vacuum that the process of hiperindustrialization generated by the world market is creating (Joachim Hirsch, 1985, p. 176, translated from German by the author).

unemployment or staying out of the labour force² (Goldthorpe, 1984; Hirsch, 1985; Storper and Scott, 1989; Komninos, 1989). Moreover, workers are being forced to resort to hitherto unusual occupational situations, like part-time and temporary employment, homeworking, self-employment, disguised employment, and the black economy (Bettio and Villa, 1989; Büchtemann and Quack, 1989; Caire, 1989; Rubery, 1989).

The outcome of these processes has led several authors to claim that the entire industrial class structure has been profoundly altered by the emergence of a large underclass of jobless and precarious workers in contrast with the existence of prosperous groups of stable and qualified labourers (Hirsch, 1985; Rodgers and Rodgers, 1989; Bettio and Villa, 1989; Büchtemann and Quack, 1989; Caire, 1989; Pollert, 1991; Esping-Andersen, 1993 and 1996). Other authors maintain that the fading of established social classes has nourished a widening process of 'proletarianization', in which underprivileged workers and welfare dependents amount to a significant percentage of the total active population (Wright and Singelmann, 1982; Wright, 1985). Whereas, taking the argument to its utmost limits, it has been argued that social change in recent decades has rendered the concept of class structure wholly inappropriate for the analysis of a postindustrial society (Duncan, 1968; Dahrendorf, 1988; Clark and Lipset, 1991 and 1993). The conclusion which emerges out of these different approaches is that socio-economic restructuring has caused a profound reshuffling of the established social structure.

In the political arena, it has been argued that socio-economic restructuring has put the long-established system of worker representation and traditional trade unions at stake. Economic decentralization hastened the dismantling of large plants, which hitherto acted as havens of strong unionism and collective bargaining. All over Europe unions underwent

² According to Scott and Storper, flexible 'post-Fordist' production methods are associated with high levels of external flexibility through mechanisms like accelerated turnover, part-time work, short-term labour contract or home working. And flexibility ultimately leads to the creation of two distinctive segments of workers: "a highly remunerated segment consisting of professional, craft, and technical workers, and a poorly remunerated segment made up of politically marginalized social groups such as women, ethnic minorities, and rural-urban migrants" (Storper and Scott, 1989, p. 32).

sharp declines in membership³, a factor which greatly eroded both their legitimacy for participating in social and economic processes, and their capacity for influencing them.

Furthermore, the role fulfilled by the state was also challenged. Several decades of Keynesianism and of active state intervention in the economy began to be questioned. On the one hand, the economic experiment of the first French Socialist government between 1981 and 1984 taught the rest of Europe that neo-Keynesian policies could no longer be freely applied and that it was impossible for a one-nation solution to effectively counteract on a national scale the effects of a global crisis. On the other hand, there was a growing enthusiasm in favour of reducing the level of state intervention in the economy, mainly promoted by conservative and liberal governments in Great Britain and the United States. Socialist and Christian-Democratic governments everywhere did not remain immune to these trends. Liberal measures were conspicuously applied in Germany, France, Spain, Portugal and other countries⁴. The deregulation of the labour market and the privatization of state owned enterprises have been important issues since the beginning of the 1980s, although radical transformations in this field have only been achieved in Great Britain.

Even certain pillars of the welfare state -an emblematic element of the Fordist society- have been shaken in recent years. Cuts in pension and health schemes are frequently recommended by international economic organizations, and have been introduced in the electoral agenda of many conservative and liberal parties. Other welfare programmes have been contested. Nevertheless, in most cases these attitudes have not been translated into a reduction of state intervention in the social and political arena.

³ According to Patrick Fridenson, the decline of the rate of trade union membership in Europe during the 1980s reaches levels of 50% in France, 30% in Great Britain and 15% in Italy. On the contrary, slight increases in trade union membership are observed in already highly unionized countries such as Denmark and Finland (Fridenson, 1991, p. 2).

⁴ One of the main examples of this tendency has been the emphasis of most governments during the second half of the 1980s and the beginning of the 1990s to keep inflation rates low, at the cost of high interest rates and to the detriment of employment.

The political panorama in Europe also experienced a noticeable metamorphosis throughout the 1980s. With the clear exceptions of Spain and Greece, and the fluctuating experiences of France and Portugal, left wing parties suffered electoral drawbacks which condemned them to opposition. Even Scandinavia, the cradle of welfare state, has not been spared from these patterns of socio-political change. Social-Democratic parties -in office since the outbreak of the Fordist system- have encountered greater difficulties in clinging to power⁵, and conservative parties, without challenging the global conception of welfare-statism, have contemplated partial dismantling and reform of the system in their agenda. As Franklin, Mackie and Valen indicate, this decline of left wing strength is a consequence of changes in the social arena, which have led voters to show "increasing unpredictability in their choice between parties" (1991, p. 3), as a result of the disruption of the Fordist cleavage structure as described by Lipset and Rokkan. To put it in Komninos words "policies of the post-Fordist regulation correspond to an apparently different relationship between politics and economy, to a relationship of separation which is said to ascribe to the restoration of market forces and the reduction of state interventions in the economy" (Komninos, 1989, p. 350).

1.1.1.- SPATIAL CONSEQUENCES OF THE BREAKDOWN OF FORDISM.

The great majority of the scientific literature on the spatial consequences of the breakdown of Fordism agrees on the fact that social and economic restructuring has also altered the spatial distribution of production and, thus, the distribution of wealth. As a consequence of the crisis in the established economic, social, and political orders, a new form of spatial organization seems to be emerging. From this perspective, it has been often claimed that the old rural-urban, agrarian-industrial or even centre-periphery dichotomies in developed countries, which dominated the spatial panorama before and after the second world

⁵ Since the beginning of the 1980s, there has been a significant increase of support for centre and right wing parties in Scandinavian countries, which has eventually led a more frequent alternation in power of centre-right coalitions with social-democratic governments.

war, and which determined sharp contrasts in the distribution of wealth, are fading in favour of a more complex territorial pattern (Massey, 1984; Gregory and Urry, 1985; Agnew and Duncan, 1989; Entrikin, 1989; Scott and Storper, 1992; Leborgne and Lipietz, 1992; Benko 1992).

Fordism engendered a spatial system based on the accumulation of capital and labour in urban agglomerations - the 'development poles' (Perroux, 1957)- with satellite industrial zones strategically placed in natural resource or energy sites and along the great communication axes. Labour and capital tended to be concentrated in big industrial plants and production units in core regions, in order to take advantage of internal and external economies, as well as of economies of scale and scope (Scott and Storper, 1992, p. 10-14).

The process of socio-economic restructuring and changes in the system of production have stimulated transformations in the prevailing territorial pattern. Technological and informational advances, together with the internationalization of the economy set up new possibilities for the development of businesses and, in theory, allowed a greater incorporation of former remote areas to economic circuits, opening up new markets and increasing competition. Furthermore, the reduction of transport costs and the availability of relatively inexpensive and well-trained labour outside the traditional industrial strongholds spurred companies and businesses to relocate production units in former rural areas and Third World countries. Challenges to the domination of the traditional industrial system were, thus, both external and internal. As Storper and Scott point out, "internally, market saturation and thorough-going spatial decentralization in response to worker militancy were creating high levels of unemployment and productivity slowdowns in the core. Externally the competition from Japan and the newly industrializing countries was cutting dramatically into domestic markets in North America and Western Europe. The net result was intensified industrial restructuring and rationalization in the core leading to more plant closure, more decentralization, and greater unemployment" (Storper and Scott, 1989, p. 25-6).

As a result of these changes, great industrial regions developed around industrial mass-production complexes could not stand the challenge and became increasingly menaced by the decline in manufacturing. Conversely, favourable conditions in former lagging regions encouraged the development of competitive economic activities and attracted foreign investment. 'New industrial foci' began, thus, to emerge in areas deprived of Fordist production complexes.

To a certain extent, it could be stated that the same mechanisms, which are originated with in the social sphere by the shifts in production structures, are supposedly being reproduced in the territorial distribution of wealth. Social 'dualism' and segmentation are being matched by a new and more divided international spatial configuration. In this new configuration, the role of old industrial regions could be considered similar to the one played by the large mass of highly unionized skilled workers; the new industrial foci could be compared to the highly-qualified and well paid wage earners of the postindustrial society (the A-team); and formerly lagging areas not profiting from the new conditions correspond, *grosso modo*, to the rising group of precarious workers, or the 'outsider class' (the B-team) (Esping-Andersen, 1996).

However, the scientific literature on the shift in the production structure and on the genesis of a new territorial pattern is far from being unanimous on the question of the actual scope and reach of the current transformations. Some authors put the stress on the fact that the increasing globalization of the world economy is leading to a greater concentration of wealth and production in a few central spaces, located in financial and administrative metropolises (Harvey, 1985; Castells, 1989; Sassen, 1990; O'Brien, 1992; Hall, 1993). The French regulation School (Boyer, 1986 and 1989; Leborgne and Lipietz, 1992) underlines the importance of the breakdown of the capitalist model of accumulation and regulation, as the key element for understanding the current transformations in the production system and the reorganization in the spatial distribution of wealth. A third current, based on the influential works of Piore and Sabel (1984), Storper and Scott (1989), and Scott and Storper

(1992), highlights the increasing flexibility of the production process as the main motor of socio-economic change. From this point of view, the crisis of the Fordist mode of mass production is leading towards the development of high-tech flexible industries in areas where "the social conditions built up in Fordist industrial regions could be avoided or were not present" (Storper and Scott, 1989, p. 27). Finally, other authors claim that recent economic and social transformations are leading towards the creation of a more complex spatial pattern than the one suggested by the aforementioned theories (Williams *et al.*, 1987; Amin and Robins, 1990 and 1991; Sayer, 1989; Rodríguez-Pose, 1994). From this perspective, Amin and Robins state that the new society emerging from the process of socio-economic restructuring is much more complex and contradictory than what has been claimed by the 'flexible specialization' approach. The new order is not characterized by a sharp cut with respect to the old order, since many of the features of the *ancien régime* linger on and influence the development of the new processes (1991, p. 220).

1.1.2.- TOWARDS THE BIRTH OF A NEW TERRITORIAL PATTERN OF GROWTH?

Contrasts in results between different approaches to the question indicate that it is still too early to determine what are the main characteristics shaping the new territorial distribution of wealth. Nevertheless, some features frequently pop up in distinct explanations of the rising postindustrial spatial order, which confer a certain homogeneity to the literature on the topic.

The most widespread idea is that the shift from mass-production methods to flexible ones and the increasing integration and globalization of the world economy have apparently not only altered economies, but have also transformed prevailing social, political, and territorial patterns, engendering a complex scope of highly segmented and hyper-specialized industrial and service regions or zones. Under these circumstances, the significance of sub-national entities is likely to increase (Porter 1990; Krugman 1991b; Leborgne and Lipietz

1992; O'Brien 1992).

Another major tenet of the literature on the spatial consequences of post-Fordism, is that socio-economic restructuring is renovating long-established territorial growth patterns and reshuffling the spatial distribution of wealth. According to large sectors of the literature, the new territorial pattern is characterized by a dual organizational type. On the one hand, the globalization of the world economy and the expansion of trade and the development of networks has led capital and information to become increasingly concentrated in core administrative regions and, thus, to reinforce its links with economic and political power. At present, there is a stronger tendency than ever before towards the urbanization of capital and decision making structures (Harvey, 1985; Lipietz, 1993). An impressive development of networks between multinational companies head-offices located in world metropoli has been attained in recent years (Thrift, 1987; Cheshire and Hay, 1989; O'Brien, 1992; Hall, 1993; Meijer, 1993). As a consequence, over the last ten years, the ownership of the means of production has undergone a brisk 'cosmopolitanization' (Sassen, 1991). "Ownership is more and more international and global, divorced from national definitions" (O'Brien, 1992, p. 100).

The globalization of world economy has, moreover, had a profound effect on the configuration of modern cities, reshaping the entire fabric of city structure. The world's financial and decision-making capacity is becoming *de facto* concentrated in a few blocks in the central business district (CBD) of a few selected metropoli. New York, Tokyo, London and even Paris or Frankfurt, have been fully integrated into this process. Their dominance over the rest of the world has been enhanced; that is, national or even continental frameworks no longer represent the limits of their influence. In a matter of minutes, their decisions influence events in all corners of the world. As a consequence of globalization, local financial and real estate markets are no longer controlled by local actors. Foreign investment even in core countries has impressively been gaining pace, in spite of barriers and regulation efforts. A study by Thrift (1987) indicates that London and New York City

already have more foreign than national banks; Canadian investors, for example, own more than a third of all office space in Minneapolis and more than half of all new buildings erected in Denver during the 1980s. California vineyards are concentrated in the hands of European and Japanese companies. As Aoyama (1988) points out, 80% of the real estate in the CBD of Los Angeles is owned by non-American companies and Japanese corporations purchased half of the new office space constructed in the centre of the city between 1980 and 1987. But this is not exclusively an American phenomenon. In Europe, foreign investment in real estate has soared in recent years.

In addition, economic investment is not neutral. It is associated with political and social power. The globalization of the economy implies that social and political control is progressively escaping from the hands of local or national legislators, politicians, and bureaucrats, whose margin of manoeuvre becomes increasingly restrained by global trends. Financial forces and private investors have grown to be so powerful that they can often alter political decisions or thwart long established social habits. There are hundreds of examples which confirm these trends, although one of the most significant cases of the power of companies and private investors as opposed to that of nation-states has been monetary turmoil within the European Monetary System (EMS). The Italian, British, Irish, Spanish and Portuguese central banks and governments have been unable to effectively neutralize speculative moves against their currencies, and have been forced to exit the EMS or to devalue. In the American, French, and Scandinavian central banks live under the constant threat of speculative attacks. In brief, the national setting has become too narrow for the head-offices of international companies whose impact can be felt almost immediately on a world-wide scale.

On the other hand, and simultaneously to the deepening of the globalization process and the development of world networks, the flexibilization of production systems seems to have allowed the genesis of new development poles in previously isolated or lagging areas. In recent years, we have faced a shift from a predominantly sectoral and urban model to a

more supple one, apparently less constrained by former hierarchical bonds with neighbouring cities, but still heavily reliant on and integrated with economic circuits and world networks. As a result, core countries have experienced in the last two decades a serious blurring of the difference in life-styles between urban and rural areas, and a corresponding increase in rural-area endowment of industrial work-places (Keeble, Offord and Walker, 1988; Porter, 1990). Some local rural areas have, furthermore, thanks to the 'flexibilization' of production and the bolstered mobility of industrial plants, registered a consistent expansion in terms of income (Stöhr, 1989), whereas the de-industrialization pace has been accelerated in former foci of mass-production (Komninos, 1989 and 1992; Storper and Scott, 1989) like the Ruhr, the North and North-West of England, the Scottish Strathclyde, Wallonia or the Nord-Pas de Calais region.

Hence, as Sabel underlines "regionalization and internationalization of productions may proceed hand in hand; the more robust a local economy, the more it attracts and is attracted to complementary foreign localities" (1991, p. 30). The regions which are benefitting from these simultaneous trends associated to socio-economic restructuring can be classified into several groups. A first set of postindustrial areas made up of decision, information and financial centres, which tend to concentrate, even more than during the industrial era, in core locations, and especially in the central business districts of large metropolitan regions like New York, London, Paris or Tokyo on a world scale, or Brussels, Berlin, Frankfurt, Amsterdam, Milan or Madrid on a European dimension. A second group of regions is taking advantage of the growing tendency to disseminate production units and research and development complexes to suburban extensions and intermediate locations, mainly in formerly non-industrialized areas which possess a high concentration of research centres and qualified human resources. Finally, routine activities and 'Taylorist' unskilled manual tasks -which were performed close to great agglomerations in the industrial era- are further uprooted from central positions to peripheral areas and 'offshore' placements, looking for low production costs and weak labour organization (Castells, 1989).

Regions disadvantaged by socio-economic restructuring can be divided into two groups. In first place, the traditional industrial regions which have undergone a strong decay in industrial output and in relative prosperity, due to the inability of their industries and manpower to adapt to the present market conditions. Secondly, a large and heterogeneous group of peripheral regions with neither the dynamic actors, nor the appropriate conditions to adjust to present trends and, thus, curb economic decline.

Together with the appearance of a more complex pattern of distribution of wealth, another tenet of the literature on socio-economic restructuring is the rise of sub-national entities to the detriment of nation-states as frameworks for economic and social transactions (Vandermotten *et al.*, 1990; Murphy, 1991; Benko, 1992). In Europe, soaring interdependency rates, the globalization of the world economy, the completion of the Single European Market, and the ratification of the Maastricht Treaty, have been considered by some as significant additional steps towards the eradication -at least in the economic sense- of the borders of the nation-state. Consequently, in some circles, the state is increasingly regarded as an outdated territorial structure whose influence on economic trends and activities is progressively shrinking.

1.1.3.- ORIGINS AND EXPLANATIONS OF THE SHIFT IN THE PATTERNING OF GROWTH.

Since the publication of Weber's work *Über der Standort der Industrien*, in 1909, most analyses on the territorial distribution of wealth and of growth rates have heavily relied on the scrutiny of one or all of Weber's key factors for the location of industries: capital, labour and raw materials. The concentration of those three factors in a certain area determined the development of big mass-production complexes. Regions such as the Ruhr, the Sombre basin, Lorraine or Lancashire and South Yorkshire constitute paradigmatic examples of this type of development.

Economic elements have been the stars in such locational analyses. Much has been published concerning the influence of microeconomic components in growth. Research has been mainly focused on the supply side factors -productivity, labour, capital, land, technology or infrastructure- as the sources of economic growth. Macroeconomics, inequality, and the demand side -primarily inflation and wage setting- have also attracted considerable attention.

A large proportion of this type of economic studies were conceived and developed under the rule of a system of mass production in which all three key factors (capital, labour and raw materials) could be considered as fairly immobile. The process of socio-economic restructuring has, however, affected the three pillars of locational analysis. The decomposition of the Fordist mode of mass production which got underway during the 1970s, 1980s and early 1990s seems to be transforming radically the conceptual framework in which the pioneering analyses of the territorial patterning of growth were created and conducted. The recent shifts in production and the globalization of trade have not only provoked a profound restructuring of the economic sphere of society; they have also shaken the theoretical pillars of locational studies and altered the conceptual conditions and the assumptions under which economic growth theories were formulated.

Technology, which, as Bresnahan and Trajtenberg point out, "is the single most important force driving the secular process of economic growth" (1992, p. 1) has progressed more than it could have been envisaged in the last decades. The recent advances in technology and in information technology have greatly enhanced the mobility of locational factors, provoking a strong transformation in spatial growth trends (Castells, 1989; Leborgne and Lipietz, 1992; O'Brien, 1992). Thanks to the strides in technology and in information technology, and to the generalizing of deregulating trends, financial capital can be nowadays considered almost ubiquitous. Fixed capital is no longer as rigid as it used to be. Moreover, the crisis of large production plants associated with mass production schemes, and the emergence of smaller and more flexible production units have -together with cost reduction

advantages connected with the relocation of production- facilitated moving businesses and production plants to distant areas. Locational constraints linked to the shortage of raw materials and energy sources have been greatly overcome thanks to the reduction in transport costs and in the input of raw materials per unit of output. Labour might still be considered as the most rigid of Weber's locational factors. Nevertheless, current deregulation trends as well as other actions undertaken in spaces such as the European Community are fostering labour mobility.

To put it in O'Brien's words, "the impact of technology on the method and speed of communications and calculation, gives the (...) markets a wholly new dimension" (1992, p. 10-11). Technology has provided the setting for the 'routinization' of a large number of service activities, and has eased the process of decentralization of traditional manufacturing chores either to suburban locations or even to distant regions (Morris, 1987). Simultaneously, it has allowed for a rising concentration of the core activities of banks in downtown sites of a few cities (Leborgne and Lipietz, 1992; O'Brien, 1992). As Markusen points out, the appeal to high technology industries has also become the preferred development strategy of most regions. Incentives and rewards are offered by local, regional and national governments in order to attract high-tech industries, which are generally perceived by political actors as the panacea for solving the development problems of the local community (Markusen, 1987).

Furthermore, information technology has been regarded as a key motor for change in growth rates. As Stöhr underlines, transfers of information, innovation and entrepreneurial initiative, from outside as well as within the local community, are determinant factors for growth (Stöhr, 1990). The increase in informational transfers stimulates growth, since it leads either to the improvement of joint research between firms and to a better cooperation between local authorities and corporations or, vice versa, it stirs competition. Likewise, the rotation of personnel between research and production units tends to improve the transfer of knowledge between research and application.

In addition, it has been highlighted that the growing integration of the economy and the development of enormous informational and financial networks, have opened new horizons and possibilities for growth for actors in distant locations and have heightened the mobility of factors generating growth (Sassen, 1991; O'Brien, 1992). This has contributed to the appearance of new developing areas and to what has been contemplated as a certain levelling out of the gap between advanced and lagging regions. As a consequence, not only have traditional Fordist industrial sites been affected by decline and a relative loss in economic weight, but also regions surrounding the ancient core have benefited from a spectacular increase in the rate of diffusion of economic innovation. Areas hitherto isolated from what was considered the advanced economy have been fully incorporated in world capitalist circuits. This catch-up effect has been observed on an international scale; the Pacific-Rim, once peripheral to the development of world economy, is becoming a key area in the evolution of the new modes of production (Markusen, 1985; Berry, 1989). But it is on a regional level, within the developed world, where phenomena such as the ascension of the 'new industrial foci', or the development of the renovated craft communities, like the Third Italy, is attracting most attention .

Deindustrialization, the rise of service and high-technology industries, and the development of new organizational structures and systems of management are now being frequently pinpointed as potential causes of the changes in the spatial patterning of growth (Storper and Scott, 1989; Scott and Storper, 1992; Dunford, 1991; Leborgne and Lipietz, 1992). Improved organizational systems within the firm have allowed a rapid response to the major challenges affecting the old industrial order. Technology, information and organizational know-how are now often considered as the ultimate means of surmounting the problems related to decreasing productivity growth rates, to the lags and high costs in passing from innovation to manufacturing, and, above all, as the best ways to effectively elude the problems associated to the rigidity of mass-production (Castells, 1985; Boyer, 1989).

In sum, explanations of the genesis of a new patterning of growth have tended to

emphasize the dynamics of transformation. Advances in technology, improvements in communication, progress in the informational field and in the organizational design of firms, or the development of market structures are frequently cited as the main factors driving the new growth dynamic. This stress on the dynamics of the economic evolution together with the fact that most empirical research on the topic has been restricted to the theoretical dimension or to case studies focusing on growth poles and industrial districts in formerly lagging areas⁶, might have induced the overemphasis on innovation and dynamic elements in the process of socio-economic restructuring and produced the widespread impression that a new and distinctive postindustrial configuration of growth trends was emerging.

From that perspective, advances in technology, information, infrastructure and the blurring of national borders are contemplated as being capable of easily removing resource bottlenecks and fostering growth in areas where development was almost precluded during the Fordist era of mass-production. Progress in innovation and technology is frequently regarded as allowing growth to occur almost anywhere with little extra-cost, since the factors that activate growth have become extremely mobile in recent years and know no national or legal borders. Thus, taken to its limits, as O'Brien does, this argument implies that "location no longer matters" (O'Brien, 1992, p. 73), or it matters much less than before; that, in theory, high economic growth can nowadays occur in any location, regardless of its start-off conditions. High growth, then, increasingly becomes an aleatory issue, since advances in technology and in information flows allow to supersede obstacles which condemned large areas to economic ostracisation and grant economic actors greater liberty of choice for the location of economic activity. Theoretically, this would ultimately lead to a randomizing of

⁶ Studies on the spatial consequences of socioeconomic restructuring have been mainly focused on what have been called the 'new growth spaces' (Komninos, 1992, p. 217). These include the 'technopoles' of Sophia-Antipolis and the *Cité Scientifique de l'Île de France*, as well as the cities of Grenoble and Toulouse in France; the so-called Italian industrial districts around Prato, Bologna, Arezzo, and the 'wonder regions' of Emilia-Romagna, Veneto, and Tuscany; the southern German *Länder* of Baden-Württemberg and Bavaria; the cities in the axis Cambridge-Reading-Bristol in England; and the high-technology centres of the Silicon Valley, Orange County, Phoenix, and Dallas-Fort Worth in the United States.

growth patterns since local conditions for the establishment of economic activities would become more homogenous and the development of production and services would increasingly depend on subjective factors such as personal interests and preferences of the economic actors, rather than on objective circumstances.

I.2.- THE NEED FOR INTRODUCING SOCIAL AND POLITICAL FACTORS IN THE STUDY OF GROWTH.

The argument that technical progress and socio-economic restructuring are reducing the sway of national and local conditions in growth and are increasingly randomizing growth patterns is, however, not explicitly supported by actual growth trends. Empirical evidence points to the fact that there seems to be no clear break between growth patterns during the climax of mass production during the 1950s and 1960s and recent years. The following pages will try to verify this fact. They depict the evolution of regional growth rates in Western Europe since 1950 until 1991, in order to unravel whether the theoretical premises portrayed in the previous pages are reproduced at the empirical level; that is, whether a new spatial pattern of wealth distribution is surfacing and whether socio-economic changes are producing a reduction of the influence of national borders on growth rates⁷.

⁷ Statistical sources on a regional level going back to 1950 are extremely rare in central countries of the European Union and almost non-existent for Greece, Spain and Portugal. Given the difficulties in compiling large and reliable regional data sets prior to 1970, the data analyzed and the maps presented in this section do not correspond to a uniform data basis. The data for regional maps between 1950 and 1970 is taken from Willem Molle, Bas van Holst and Hans Smit (1980). This data represents the average annual growth Gross National Product (GNP) at factor cost, measured in dollars for the 6 members of the Treaty of Rome -Belgium, France, the FRG, Italy, Luxembourg and the Netherlands- and the 3 which joined the Community in its first expansion -Denmark, Ireland and the United Kingdom-. Data for Danish regions in this set represents the national average.

The data for the other two maps (growth of GDP in the 1970s and 1980s) is obtained from the EUROSTAT Regio database. It denotes the average annual growth of the Gross Domestic Product (GDP) at factor cost, measured in ECUs, for the first 9 members of the European Community. Data for Greece, Spain and Portugal it is limited to the last map.

There are slight differences in the territorial division used in both datasets. These concern Belgium and Denmark. In Belgium, the Molle, Van Holst and Smit database enlarge the region of Brussels (included in the EUROSTAT Regio data set), incorporating the whole province of Brabant. In Denmark, the Molle, Van Holst and Smit division includes Jutland, Sjaeland, and Fyn, while the division used by the EC consists of the area around Copenhagen, the East and the West of the Great Belt.

In order to reduce the problems created by the use of different currencies, the levels of growth are introduced in percentages rather than absolute terms, 100 being the average GNP or GDP rate for the whole of the Community.

Regional growth rates in Europe since the 1950s have tended to follow long-term economic cycles, very closely linked to national trajectories. For example, regions in Britain, which enjoyed growth levels close to the European average during the 1950, started a strong decline, lasting throughout the 1970s, until ultimately stabilizing in the 1980s. German regions also experienced a slow but steady decline from the high growth rates of the 1950s which exceeded the European average by more than 35 percentage points. French regions have had a somewhat more stable trajectory, whereas Italian regions feature rising levels of growth.

In the 1950s the growth panorama was marked by extremely high growth rates in Germany. It was the period of the German economic miracle. The country, which had been completely devastated during the second world war, was capable of achieving full reconstruction in a very short period of time. American aid in form of the Marshall plan, as well as internal capacities and potential contributed to re-establish Germany as one of the main economic motors of Europe. This was a widespread phenomenon in Germany, since all German *Länder* but the Saar region (109) grew in the 1950s more than 35 points above the European average (Map I.1).

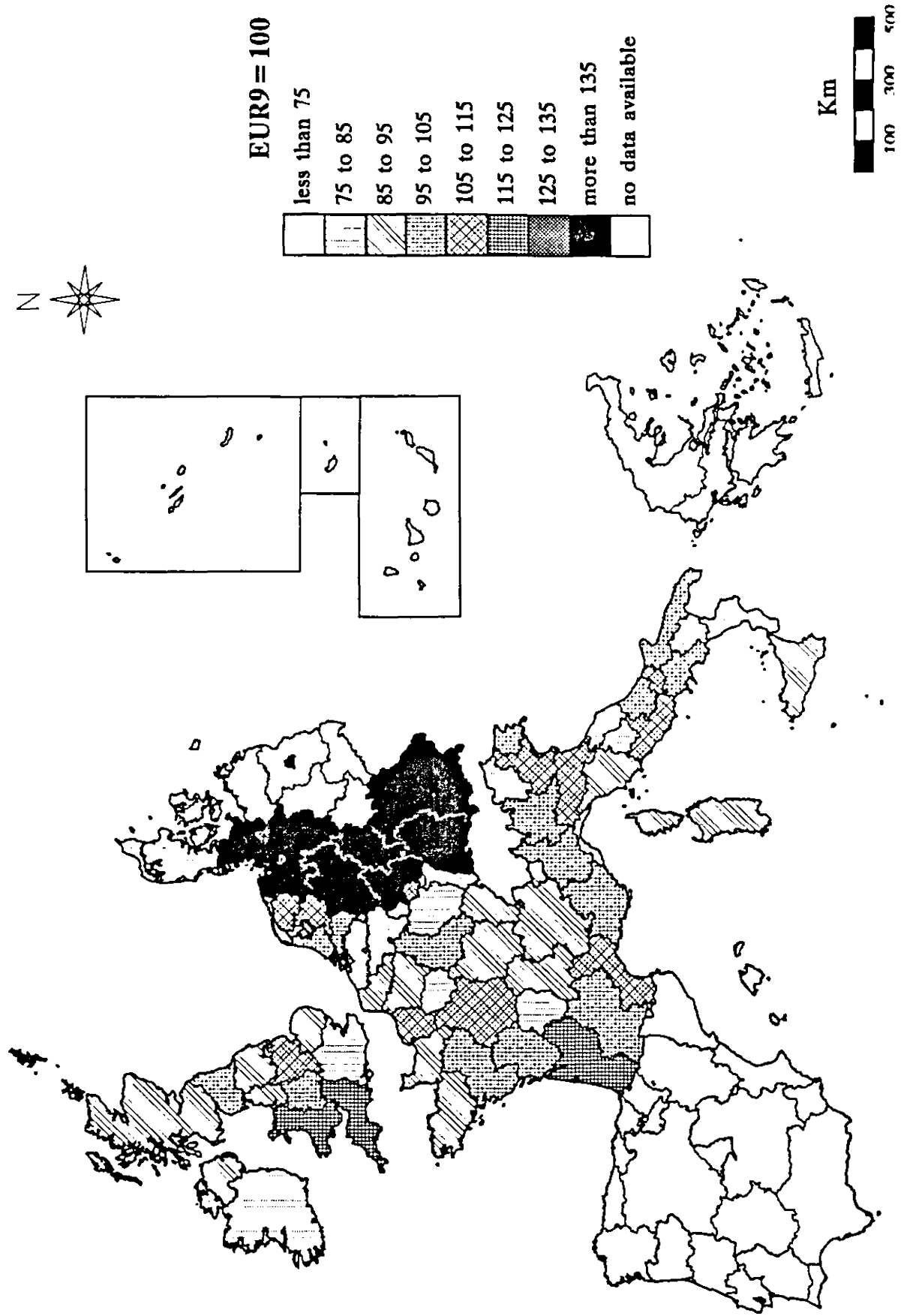
In comparison to this high German growth rates, all other West European countries seemed to stagnate. Belgium was the most flagrant case. The richest country in Europe after the second world war had by far the lowest growth rate. Flanders (63) and Brussels (61) grew around 40 percentage points below the European mean, and the formerly prosperous industrial Walloon region (51) started to suffer the consequences of industrial decline. Neighbouring Luxembourg (74) was also affected by very low growth rates.

Denmark (76) and Ireland (84) fared somewhat better, although their levels of growth were 15% lower than the average of the first nine members of the EC. Several regions in France, Britain and the United Kingdom encountered as well serious problems of reaching the European average. The Île de France (84), Lorraine (79), Alsace (77), and Limousin (76)

MEAN ANNUAL GROWTH OF GDP (Measured in \$)

1950-1960

Map I.1



in France, Trentino-Alto Adige (83), Umbria (80), the Marche (81), Basilicata (78), and Calabria (84) in Italy, and the South-East of England (77) were among the European regions with a lower growth performance. Growth rates in most other regions in these three countries and in the Netherlands hovered around the European average. Only the South-West of England (119), Wales (120), and Aquitaine (117) were clearly detached above the mean.

A clear-cut feature of this period was the significance of national borders in separating high from low growth areas. This is the case of the German border with its neighbours. Thriving growth rates were an exclusively German phenomenon and did not spread out to neighbouring regions with similar characteristics; high growth rates in an old industrial Fordist-type regions like the North Rhine-Westphalia contrasted with economic stagnation in nearby industrial Wallonia. The same thing could be said for the mainly rural Baden-Württemberg and its neighbouring Alsace. Similar national effects on growth achievement were observed along the Dutch-Belgian or the Belgian-French borders. No frontier effects were clearly noticeable along the French-Italian border or on both sides of the English Channel.

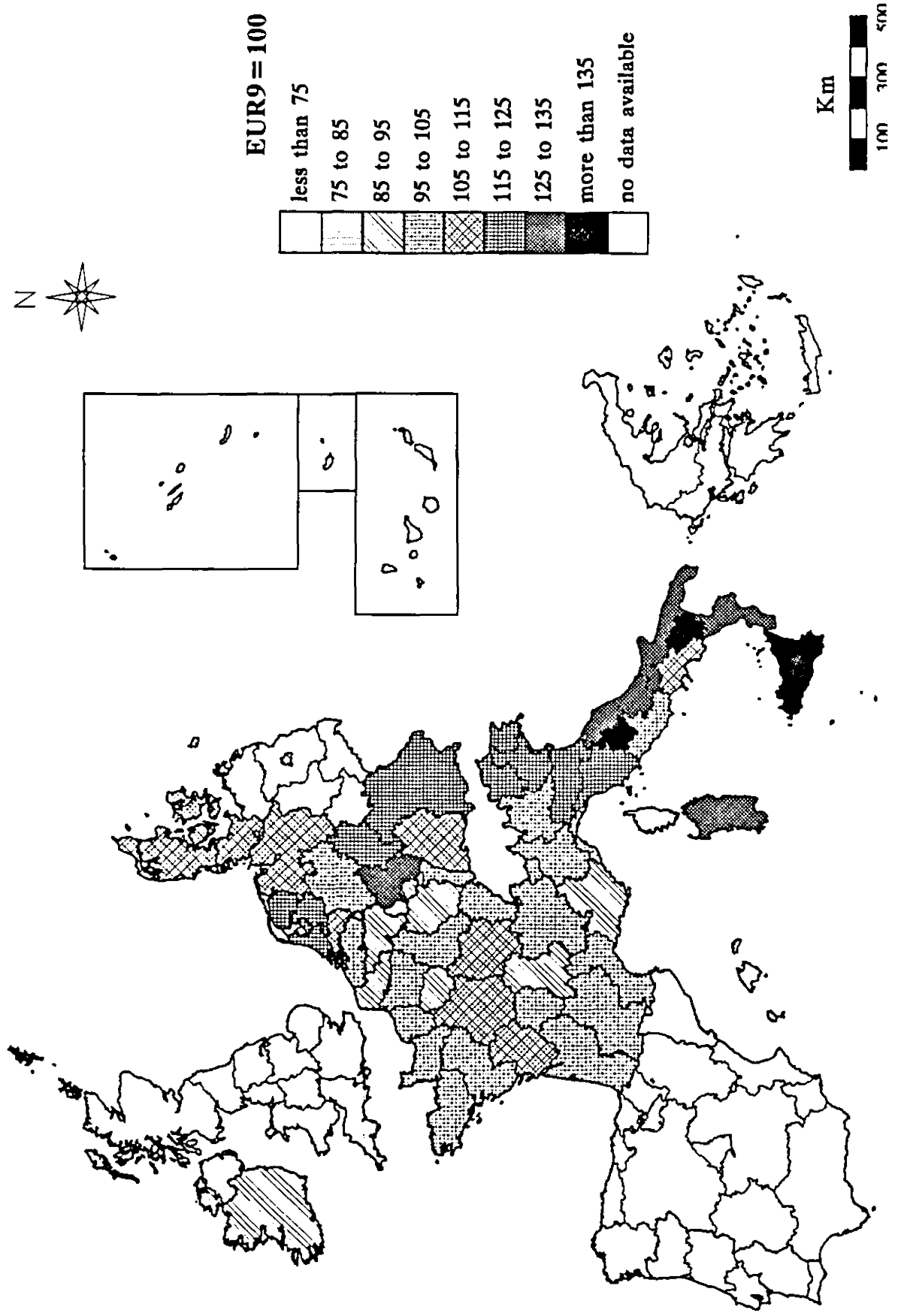
The descent in growth rates in the United Kingdom was the most distinctive attribute of the growth scene in the 1960s (Map I.2). Growth fell sharply in all British regions and varied from 38.9% of the average of the first nine Member-States of the EC in Yorkshire and Humberside, to 69.9% in Northern Ireland. No other region in the EC or in Ireland and Denmark grew at such low rates. German regions also underwent a decline in growth rates with respect to the period of booming growth of the 1950s. However, only two German regions -Bremen (91) and the Saarland (94)- were placed below the European average, whereas Rhineland-Palatinate (134) was among the regions with the highest growth.

As in the 1950s, growth rates in France fluctuated around the European average, with not very sharp interregional contrasts. The lowest growth was to be found in the old industrial regions of Lorraine (88) and Nord-Pas de Calais (86), as well as in Provence-

MEAN ANNUAL GROWTH OF GDP (Measured in \$)

1960-1970

Map I.2



Alpes-Côte d'Azur (88) and in Corsica (85). Regions around Paris generally achieved fast rates of growth. The three countries of the Benelux, Denmark and Ireland improved their performance with respect to the previous decade. The greatest leap in growth rates was accomplished by Denmark (107), which from levels of almost 76% of the European average in the 1950s escalated to well above the mean in the 1960s. Dutch regions varied between 112% and 119%. Belgian regions also progressed at a significant pace. Nevertheless, this progress did not serve to raise all of its regions above the mean. Only Flanders (105) exceeded this level, and Wallonia (88) was again the region with the lowest national growth. Lower increases in growth were observed in Ireland (90).

Highest growth was to be found in Italy. Basilicata (154) was the fastest growing region in the European Community, followed closely by Umbria (137) and the Marche (137). Sicily (136) and Calabria (134) also achieved very high rates of growth, and Valle d'Aosta (98) was the only Italian region below the European average.

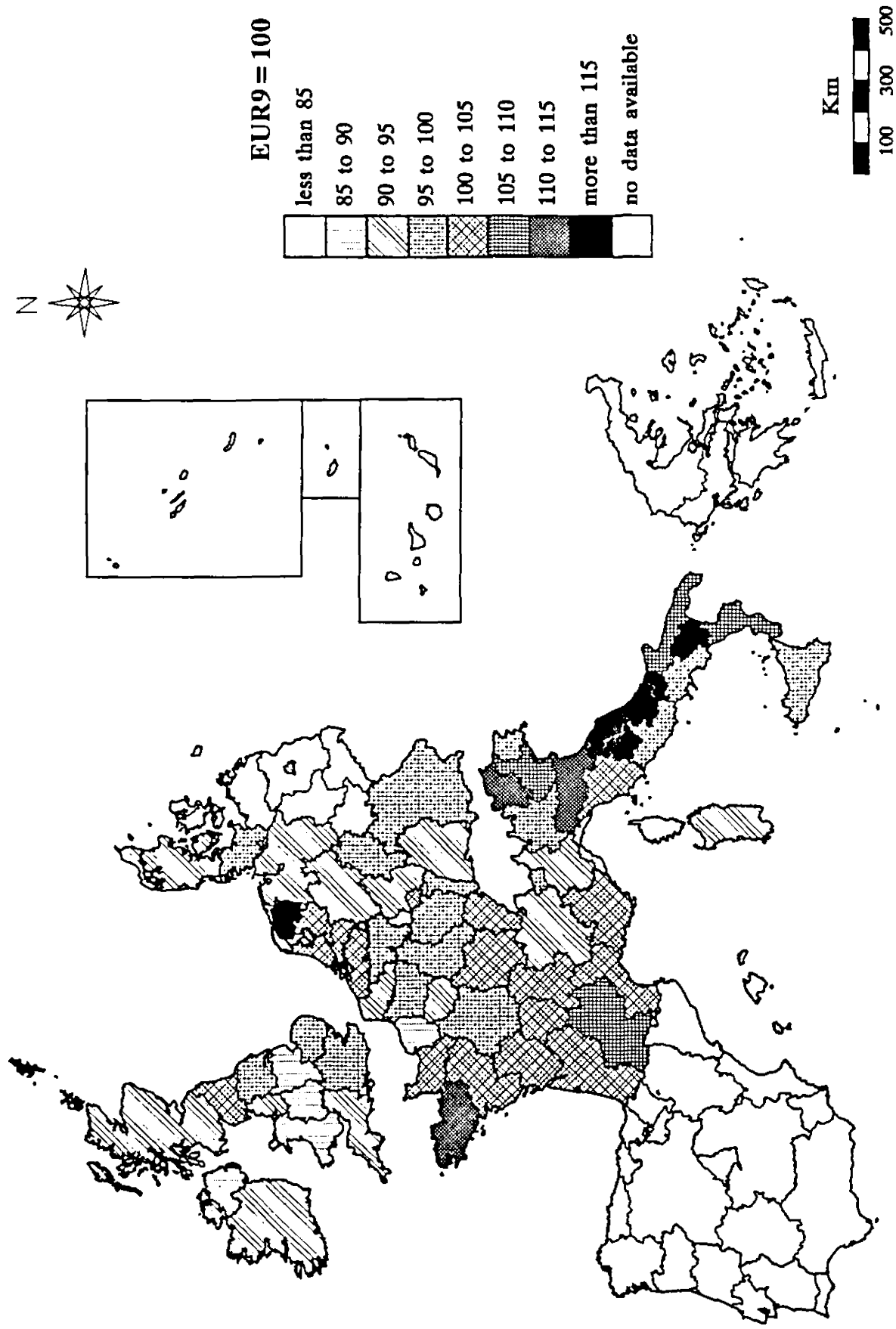
The importance of national borders in the patterning of growth rates was still visible, although it had been somewhat muffled with respect to the previous decade. Very sharp contrasts in growth performance could be noticed in both sides of the British Channel and in the Irish-Northern Irish border. The fact that the lowest growth rates in Italy were found in the North-West of the country did not hide the contrast between thriving growth in Italy and moderate growth in France. Conversely, the German border lost a great deal of its relevance as a divide between contrasting growth levels.

The 1970s were dominated by a slowdown in the rates of growth provoked by the oil shocks. As a result, strong national contrasts in growth rates which had been the norm in the two previous decades, decreased and international differences became less evident (Map I.3). Nevertheless and despite the crisis, most of the pre-existent growth trends were still visible. As in the 1960s, the highest growth was found in the Netherlands and in Italy. In the Netherlands, high growth in the North (135) was mainly due to revenues from gas pits, but

MEAN ANNUAL GROWTH OF GDP (Measured in Ecus)

1970-1980

Map I.3



slightly lower rates in the other three regions of the country (West -106-, East -106- and South -104- Netherlands) came to confirm the upward trend in Dutch growth performance observed already in the 1960s. In Italy, regions along the Adriatic coast like Marche (116), Abruzzi (119), and Molise (125), as well as some areas of the deep Mezzogiorno (Basilicata - 119-), and Umbria (120) relished relatively prosperous rates of growth in a context of economic recession. It was also the period of the emergence of the Third Italy. High growth rates in the northeastern regions of Emilia-Romagna (113), Trentino-Alto Adige (113), Veneto (108), and, to a lesser extent, Tuscany (104) put in evidence the dynamism of areas whose main industrial fabric was based on small and medium-size enterprises, in contrast with the problems that the Italian havens of mass production in the Piedmont (91) and Liguria (80 -the lowest growth rate in the EC-) were experiencing.

Certain symptoms of recovery were observed in the United Kingdom. After having attained the climax of relative decline during the 1960s, the 1970s brought about higher growth in relative terms. The exploitation of North Sea oilfields was one of the factors which helped curb declining trends. The slight improvement did not mean, however, lofty growth rates across British regions. Only the North (105) and East Anglia (101) were above the EC average. The East (89) and the West Midlands (89), Wales (88) and Northern Ireland (89), in contrast, were still placed among Europe's lowest growing regions.

German and Danish regions, Ireland and Luxembourg made up the lowest growing areas in the EC. In these four countries only the Saarland (104) grew above the European average. Luxembourg (87) and the two Danish regions east of the Great Belt (84 and 89), in contrast, were placed below the 90% mark. Ireland (93), the rest of Germany and the West of the Great Belt (92) had levels of growth of between 90 and 100%.

France and Belgium hovered around the European mean, with strong internal contrasts in the case of the former between regions like Lower Normandy, Limousin, Franche-Comté and Provence-Alpes-Côte d'Azur (all four 104) and Upper Normandy (87). In Belgium, the

traditional internal distribution of growth rates present since the 1950s was again reproduced: higher growth in Flanders (102) than in Brussels (101), and the lowest growth in Wallonia (97). In both countries, growth trends in the 1970s comply with tendencies already present in previous decades. Belgian regions registered a steady increase in relative growth rates, while French regions remain more or less stable around the European average.

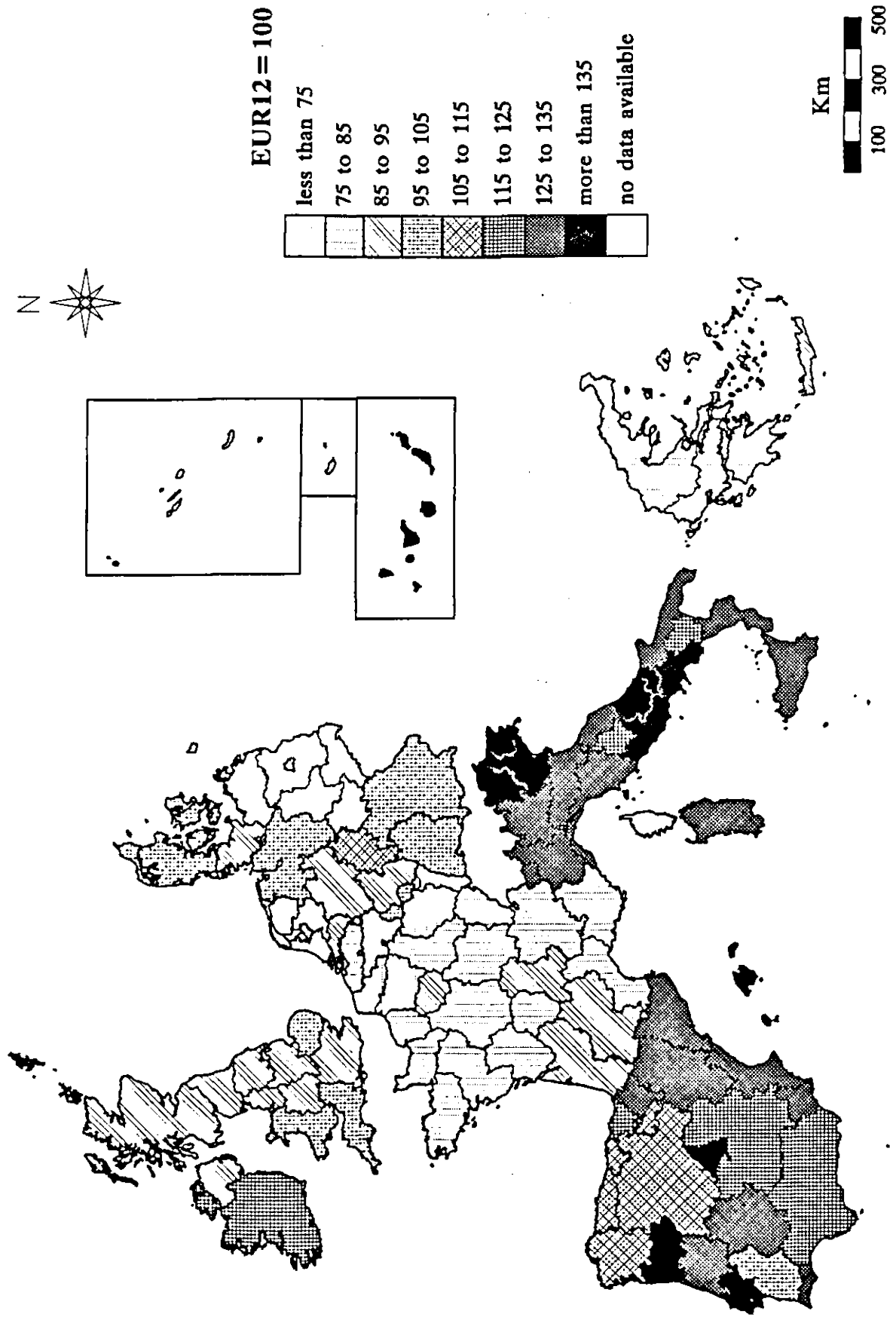
The relevance of national borders as landmarks of sharp differences in growth rates is less manifest during the 1970s than in the previous decades. The two oil shocks brought about a slowdown in growth rates all over Europe, and thus an approach in national and regional growth levels. Hence, there was not only a reduction in the gap between fast and low growing areas, but also less contrasts among regions in growth behaviour. As a consequence, the Italo-French, the Belgo-Dutch, the Franco-Belgian, and even the British Channel no longer delimited disparate patterns of growth. The only explicit border effect could be noticed along the Western German border (with the exception of the boundary between Germany and Luxembourg). Relatively flourishing growth rates in the Netherlands, Belgium, and, to a lesser extent, Northeastern France contrast with low growth in the German *Länder* of Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, and Baden-Württemberg.

In the 1980s high growth measured in Ecus was concentrated in peripheral countries of the EC (Map I.4). The fastest growth rates were found in Italy, Portugal, Spain, and Ireland. Great Britain, Germany, Denmark, and Luxembourg had moderate growth with respect to the rest of the EC, and slow growth was located in France, Belgium, the Netherlands, and Greece. The fastest growing regions were the North of Portugal (157), and Lisbon and the Tagus Valley (151) in Portugal, and the Canary Islands (153) in Spain, with rates in excess of 50 percentage points above the EC average. Rates of more than 135% were also found in Lazio (147), Friuli-Venezia Giulia (140), Veneto (139), Campania (139), Abruzzi (138), Trentino-Alto Adige (136), and Molise (135) in Italy, and in Madrid (140), and the Balearic Islands (139) in Spain. Growth in all other regions in Italy, Portugal and

MEAN ANNUAL GROWTH OF GDP (Measured in ECUS)

1980-1991

Map I.4



Spain was above the European average. However, growth across regions in these countries was far from being homogenous. Wide gaps in rates of regional growth were detected in Portugal and Spain. 56 points separated the fastest growing region in Portugal (the North - 157-) from the slowest (Alentejo -101-); the gulf between growth in the Canary Islands (153) and in Asturias (109) or Cantabria (109) was also immense. In Italy contrasts in growth rates were less explicit.

British, Danish and German regions tended to grow slightly below the European average, with the exceptions of Hesse (108), Hamburg (106), and Bavaria (104) in Germany, and the West of the Great Belt (103), and the area around Copenhagen (101) in Denmark. Only the mass production regions of the North (87), North West (87), and Yorkshire and Humberside (89) in the UK, and North Rhine-Westphalia (87), and Rhineland-Palatinate (88) were set below the level of 90%. In the British and German cases moderate and low levels of growth represent a continuation of growth trends observed in previous decades, whereas slight signs of recovery are observed in Denmark.

Slow growth characterized the regional economic evolution in Belgium, France, Greece and the Netherlands. North Eastern France, Wallonia and the Northern Netherlands experienced the lowest rates, and all other regions -but for Midi-Pyrénées (91), Île de France (90), Aquitaine (87) and Auvergne (85) in France, and the tourist region of the Greek Islands (92)- were placed below the 85% limit.

Once again the sway of the national dimension on regional growth rates is clearly noticeable in the map. Almost all national borders delimit sharp contrasts in growth performances. This is evident between France and Italy, France and Spain, and across the strait of Otranto between Italy and Greece. Dissimilar growth patterns are also observed between Germany and all its western neighbours but Luxembourg, and across the English Channel between the United Kingdom and France and Belgium. The only exceptions to this trend are the Portuguese-Spanish, Franco-Belgian, Belgo-Dutch, and Danish-German borders.

*
* *

The picture which emerges from empirical evidence demonstrates, as we have seen, that regional growth trends have tended to follow cycle patterns throughout the four decades contemplated in the analysis. Regional inequalities have been particularly resistant to change (Dunford, 1993, p. 737) and, although success and failure stories are evident, there is little sign of sudden alterations in growth rates happening in a cross-sectional scale, which might suggest a greater randomizing in the patterning of economic growth. Regional growth levels have tended to follow clear cut national trajectories, with little sign -with the exception of the low growth period of the 1970s- of a loosening of the national influence throughout the decades. And, within nations, despite phases of convergence and divergence, we have witnessed a certain consolidation of cross-national trends such as the tendency of metropolitan areas and the 'new industrial foci' built around research centres in intermediate regions to grow above the average, whereas traditional industrial zones and most peripheral regions endure lower growth rates. There are some exceptions, but as a general rule there seems to be no evidence to support the hypothesis that regional growth rates have undergone in recent years greater alterations than in previous decades.

There is practically no clear sign of growth patterns becoming more aleatory, since the growth tendencies of the 1980s were anticipated in some way by trends which were already recognizable in the 1950s and 1960s. A greater randomizing of growth trends would have implied a greater interchange of high and low growth levels in the same region across time periods, and a greater disconnection of regional and national patterns of growth. None of these elements are clearly manifest in the Western European arena in the last forty years. There is always a strong link between world growth levels and national and regional tendencies, and the ascent of the so-called 'wonder-regions' responds more to long term

trajectories than to sudden outbursts in economic activities linked to advances in technology.

It is true, to a certain extent, that traditional locational constraints are gradually losing relevance. Some regions in the periphery which formerly lacked the conditions to reach the stage of sustained growth are now among Europe's growth champions, but these exceptions are insufficient to prove that "location no longer matters" to growth. Socio-economic restructuring has by no means rendered growth an aleatory issue. We must ask: what, if traditional locational constraints are losing relevance in the genesis of growth and there is no sign of a radical alteration of growth patterns, is the logic behind the persistence of long term growth trends? If advances in technology and the globalization of the economy allow for a much greater mobility of economic factors provoking growth and for the eradication of former bottlenecks, why have we not witnessed a complete disruption in growth trends? Why do growth patterns linger on and why are regional inequalities particularly resistant to change in a period of socio-economic restructuring?

In the first instance, the persistence of long-term growth trends might respond to the fact that the role of technological change and the effects of world economic integration on growth could have been overstated, and, thus, traditional factors producing growth still play the significant part they used to play before. Secondly, it could be argued -following Markusen (1985)- that growth trends tend to follow product cycles and are, therefore, more closely linked with life cycles of industries or production units, than with external processes. Last but not least, it might mean that socio-economic restructuring has provoked a notable shift in the importance or visibility of the constituents of growth. Factors and constraints that used to be relatively unnoticed or were ignored, come to the fore as major elements of economic progress. This is the case of social and political factors, in particular, which until recently (and despite of some notable exceptions), were contemplated as supporting elements in the cocktail of growth and now appear more evident than ever as endogenous constituents of growth. Hence, in a context of increasing globalization of the economy and of the removal of trade and economic barriers, social and political factors come to play a more meaningful

(or perhaps more visible) role in the genesis of economic growth and territorial disparities.

This thesis will deal with the analysis of this final hypothesis at the European regional level during the 1980s and early 1990s. What is the combination of social and political factors that -regardless of the importance of purely economic factors- is more closely related to thriving growth levels in the European Community? Are socio-political factors connected to growth equally significant across nations and regions in Europe, or do they vary noticeably according to nations or types of regions?

In short, my hypothesis is that the removal of physical and economic obstacles -via advances in technology and the globalization of the economy- which had hampered and limited the expansion of economic growth to certain areas, thus fostering the emergence of economic disparities, neither implies a clear cut waning of economic disparities, nor a randomising of growth rates. Old regional disparities persist, new ones are appearing and growth rates still differ, and the causes of old and new patterns of growth are still the result of a complex combination of economic, social, political and cultural factors in time and space. As a result of socio-economic restructuring, however, greater attention must be directed to the role played by social and political components as generators of economic growth.

1.2.1.- STRENGTHS AND WEAKNESSES OF TRADITIONAL THEORIES OF GROWTH.

The quest for the *explananda* of growth is not new. Since the pioneering work of Adam Smith, economists, sociologists, political scientists, geographers and other social scientists have progressively been attracted to the field of spatial disequilibria and growth. The analysis of wealth and its uneven territorial distribution has led to the development of many theories concerning economic inequalities, both from a theoretical and empirical point of view. Growth studies have flourished specially after the second world war and during the

period of decolonization, and the analysis of growth has been tackled with most fervour by economists. Accordingly, the economic dimension of growth has tended to be overemphasized in most analysis, whereas the impact of social and political factors on growth trends has remained discreetly in the background, only coming to the foreground in a reduced number of explanations. The following pages contain a brief review of the major recent theories of economic growth, highlighting their strengths and weaknesses and paying special attention to the consideration of social and political factors as contributing factors to of economic growth.

As Solow points out, in the last 50 years there have been three waves of interest in growth theory. The first one is associated with the work of Harrod (1942) and Domar (1946); the second with the neoclassical approach to growth and, finally, there is the recent endogenous growth approach (Solow, 1994, p. 45).

The first wave relied heavily on factors like investment and savings. In the Harrod model growth is triggered by the use of investment carried out by entrepreneurs under different market conditions. The behaviour of entrepreneurs and their use of investment is determined by rational expectations, and leads the economy to a constant disequilibrium. In Domar's model the rate of growth is the product of the investment-output ratio and the output-capital ratio (Solow, 1994, p. 46). Factors employed by Harrod and Domar are basically economic: investment and output, savings, income, labour and productivity under conditions of no technical progress (Chaudhuri, 1989, pp. 55-59). However, these models entail numerous assumptions and leave several questions unexplained. First, because they suggest -particularly Harrod's version- the existence of a highly unstable economy which is quite difficult to admit in reality. Second, they do not consider the capacity of learning from experience, or the learning by doing of economic actors (Chauduri, 1989, p 59-60). Third, the Harrod-Domar model does not explain why a fixed proportion of income is saved and what determines that proportion. And finally, prices are completely divorced from productivity considerations (Solow, 1994, p. 47).

The neoclassical response to the Harrod-Domar model is to make the output-capital ratio the endogenous variable (Solow, 1994, p. 47), and to focus on changes in technology as one of the driving forces behind economic growth. Thus, a model in which technology and capital represent the main factors provoking growth emerges. The model adopts the following form:

$$Y = A(t)K^\alpha L^{1-\alpha} \quad (1)$$

where Y is gross domestic product, A is the starting level of technology of a country, (t) is the exogenous rate of change of technology, K is the stock of capital and L the stock of labour (Solow, 1956). The expansion of this model inaugurated a long and persistent tradition by which growth is conceived as a regression in which explanatory variables are entered independently and linearly (Levine and Renelt, 1992, p. 943).

The neoclassical model is based on two basic assumptions: perfect competition and exogenous technology which increases the productivity of labour at an exogenous and constant rate. Hence, in this model economic growth is spurred via increases in savings, which propel investment.

The main criticism directed at the neoclassical model is that, if technology is exogenous and increases in an homogenous way across countries and regions, capital accumulation and investment become the single most important forces behind changes in the standard of living. Nevertheless, the promotion of economic growth by raising the investment quota seems, as Solow concedes, "too easy an approach" (1994, p. 48). Furthermore, under the conditions assumed in the neoclassical model, the effect of savings and investment in growth is only temporary, since it will wane as the ratio of capital to labour increases (Pack, 1994, p. 56). As the input of capital per worker rises, constant or decreasing returns to scale are generated, which lead to a decline in the marginal product of capital. This process causes a parallel downfall of savings, and, thus, less investment. As a result, the economy enters

a stationary stage in which no growth is induced. The appearance of constant returns to scale and diminishing marginal products denote an internal contradiction within the model, since they imply "that the long-run rate of growth is completely independent of the savings-investment quota" (Solow, 1994, p. 48). Hence, "increasing the rate of *per capita* growth is not only not easy in this model, it is impossible unless technological progress can be altered deliberately" (1994, p. 48). As a result, assuming that technological progress remains constant, we will face a steady convergence in *per capita* income across nations and regions.

The neoclassical approach, therefore, leaves the main factor provoking growth - technology- unexplained⁸. Technological change and endogenous technological progress tend to be considered as a constant in most regressions and, thus, their influence in economic growth is negligible. However -as Romer points out- empirical evidence has come to reject the postulates of the neoclassical approach to growth. On the one hand, technology has not remained constant over time and across nations, but, on the contrary, it has improved at such a rate as to act as a constant fillip to economic growth. On the other hand, the predicted convergence in terms of *per capita* income associated with diminishing returns to capital, has not been observed on a world wide scale (Romer, 1986).

As a consequence of these criticisms, subsequent theories of growth have relied heavily on the analysis of technology and on the rejection of the neoclassical assumptions. Technology is neither exogenous or evolves at a constant rate, nor does growth occur in conditions of perfect competition. This is especially true in the case of the endogenous growth approach; the recent and vigorous revival of growth theory in the economic arena. The foundations of the endogenous growth were set by Romer (1986) and Lucas (1988) by trying to 'endogenize' factors which were conceived as exogenous in the neoclassical model. Therefore, economic growth is considered "an endogenous outcome of an economic system,

⁸ Solow rebuts this criticism by explaining that "first of all, to say that the rate of technological progress is exogenous is not to say that it is either constant, or utterly erratic, or always mysterious [...] Secondly, no one could ever have intended to deny that technological progress is at least partially endogenous to the economy (1994, p. 48).

[and] not the result of forces that impinge from outside" (Romer, 1994, p. 3). Technology and technological progress -increasingly regarded as the "real force behind perpetually rising standards of living" (Grossman and Helpman, 1994, p. 24)- thus become endogenous, and change differently in different countries or regions according to the amount of human and physical capital devoted to research and development (Romer, 1986; Lucas, 1988; Rebelo, 1991). But the sway of technological progress on growth is greatest under conditions of imperfect market competition; the possibility of protecting property rights via the patent system and earning monopoly rents on discoveries provide an important incentive for researchers, fostering further advances in technology, a better adjustment between supply and demand and, ultimately, economic growth (Romer, 1990; Grossman and Helpman, 1991; Aghion and Howitt, 1992; Young, 1993).

Despite its emphasis on technology and on imperfect markets, the endogenous growth approach does not represent a radical shift in growth theory. Many of the postulates of the neoclassical approach have been rethought and reworked, but the foundations behind both models remain remarkably similar. Basic equations of growth in the endogenous approach tend to adopt the following formulation:

$$Y = AK^{\alpha}L^{\beta} \quad (2)$$

where Y is output, income *per capita*, or growth; A denotes the state of technology, K denotes capital, and L denotes labour. In both approaches, growth is a function of the same basic factors, and contrasts in theories of growth lie mainly in differences of the stress with which different authors and different approaches tackle different variables than in the quest for new determinants of growth. This situation has led a great part of the economic literature on growth to a certain impasse, since, despite significant advances in our understanding of growth processes, a great deal of effort has been spent in checking the accuracy of basic assumptions of the neoclassical model. As Pack points out, "most of the empirical work motivated by endogenous growth theory has actually tested implications of the Solow-style

neoclassical growth model rather than endogenous growth theory itself" (1994, p. 58). This has somewhat narrowed the scope of the debate on growth, with three subjects attracting the most attention in the literature:

- a) the convergence controversy;
- b) the debate on perfect competition and rationality;
- c) the focus on capital and innovation.

1.2.1.1.- The convergence controversy.

As Romer indicates, "the question that has attracted the most attention in recent work on growth is whether *per capita* income in different countries is converging" (Romer, 1994, p. 4). As mentioned before, the existence of diminishing returns to capital in the neoclassical model entails that -the levels of technical progress being equal and under perfect market conditions- the capital stock growth of lagging areas outstrips that in richer areas. Hence, lagging areas "should converge to the capital-labour and capital-output ratio (and the income levels) of richer countries" (Pack, 1994, p. 63). Empirical evidence and the assumption that technological progress differs across regions and countries advanced by the endogenous approach to growth, thwarted the idea of a steady convergence of income levels. Having different rates of innovation in different countries might provoke increasing and not diminishing returns to capital, thus, causing a greater marginal productivity of capital in areas with the highest level of innovation (Romer, 1986; King and Rebelo, 1993). Needless to say, these areas tend to be the richer regions and countries.

This controversy has fascinated growth researchers, who have delved into this debate with frenzy. Many models have been put forward trying to check the convergence or divergence hypothesis in recent years. From the first attempts by Abramovitz (1986) and Romer, in which he determined that, all other variables being constant, the effect of investment rates on growth was positive, whereas the association of growth with initial

income was negative (1987), several other authors have studied whether under different circumstances convergence will occur. Barro (1991) and Barro and Sala-i-Martin (1992a and 1992b) propose models in which faster diffusion of technology and know-how in technology-receiving countries than in technology-diffusing countries narrows the technology gap and causes greater returns to capital in lagging areas. Mankiw, David Romer and Weil (1992) tried to demonstrate the convergence hypothesis even with the neoclassical assumption that the level of technology is the same in every country in the world. Dollar (1992), and Levine and Renelt (1992) also found evidence to support the convergence hypothesis. Yet, as Crafts underlines, "catch-up is not automatic, nor its potential is always fully realized" (Crafts, 1992, p. 395).

This whole focus on convergence, however, is only a detour from the basic study of the determinants of growth. Most results seem to support the idea of a steady convergence in growth rates, although there is no agreement on the rate of convergence⁹. Nevertheless, these results might be biased by sample selection, mainly by the lack of long-time series and reliable data and by temporal and spatial constraints¹⁰. Despite the fact that some attempts to check the convergence hypothesis have traced GDP data back to 1880 in the case of the United States (Barro and Sala-i-Martin, 1992b), on a longer perspective, neither convergence, nor divergence can be considered as long established historical trends. Both tendencies alternate according to historical circumstances. Political and economic empires have risen and fallen; areas of the world which experienced long periods of economic darkness, then rose up, only to plunge again into lagging positions after a certain period of time. And even in our times, empirical evidence proves that the convergence hypothesis successfully interprets only a certain part of the story. Countries like the newly industrialised countries (NICs) in the Pacific Rim, lead by South Korea, Taiwan and Hong-Kong, furnish the best example, or

⁹ Convergence literature has undergone heavy criticism in recent times. Quah, for example, has showed that the much heralded 2% convergence rate might as well be a statistical artefact caused by a unit root, rather than the result of economic conditions (Quah, 1995).

¹⁰ De Long pointed out the existence of a sample bias in the Maddison data set, which only includes successfully industrialized countries (1988).

rising areas in the Third Italy or certain once lagging areas of the American South West (Silicon Valley, Orange Country, Phoenix, Tucson area) represent but a few examples of convergence. But on a world scale, the gap between the richer and the poorer countries has widened. In 1970 GDP *per capita* measured in US\$ of the United States was 41,41 times higher than that of the countries which the World Bank describes as 'low rent economies'. Twenty years later this gap was broader: GDP *per capita* in the US was 62,28 times larger than in the same group of peripheral countries (World Bank, *World Tables 1992*). Similar divergent trends were observed in other areas of the world.

Hence, it could be stated that growth does not seem to adapt to any predefined convergence or divergence hypothesis. It appears to change randomly following patterns more closely linked to what could be described as life-cycle criteria or rise and fall canons (Mancur Olson, 1982, Kennedy, 1988) than to logical economic rationalizations about catch-up possibilities. Economic-based deductive hypotheses do not always succeed in giving a satisfactory explanation of the spatial evolution of the configuration of growth.

Consequently, we can conclude with Romer that "the convergence controversy captures only part of what endogenous growth has been all about. It may encompass a large fraction of the recently published papers, but it nevertheless represents a digression from the main story behind endogenous growth theory" (1994, p. 11). The determinants of growth have to be sought outside this debate.

1.2.1.2.- The debate on perfect competition and rationality.

The neoclassical growth theory developed by Solow (1956) and Denison (1961) set forth a model characterized by the existence of a closed economy with perfectly competitive markets, identical rational individuals (the famous *homo oeconomicus*), exogenous technology, token government intervention in the economy, and a production technology exhibiting diminishing returns to capital and labour separately and regular returns to both

inputs jointly. Many of the assumptions make the model appear utterly unrealistic when compared with the complex interactions of the real world. The adoption of too many unreal assumptions, such as the *ceteris paribus* clause, the presence of identical rational individuals, or of competitive markets made traditional growth models less and less appealing to researchers. Moreover, the assimilation of exogenous technology to a constant value across countries contributed to view the neoclassical approach to growth as one in which society and the economy are deprived of most of their complexity, and transformed into huge platforms where hypotheses could be tested with the same accuracy as chemistry experiments in a laboratory.

One of the main goals of the endogenous growth response to the neoclassical model was to tackle these unrealistic assumptions. The chief stride forward was made by challenging the perfect competition hypothesis. It was obvious that markets have never functioned in real life under the circumstances predicted in the neoclassical model: a myriad of firms working under conditions of perfect information and perfect access to resources. Lack of information, monopolistic and oligopolistic practices and strong governmental interventionism tend to be the rule and not the exception.

The endogenous growth approach tried to capture the complexity of real markets into its modelling of growth. However, most attempts to model imperfect competition were limited to making technology an endogenous factor, pondering public and private investment in research and development (Bresnahan, 1986; Griliches, 1988; Trajtenberg, 1990), and considering the possibilities of firms earning monopoly rents on innovation, in a more or less Schumpeterian way (Judd, 1987; Grossman and Helpman, 1989; Romer, 1990). These have been certainly significant steps towards a better understanding of how growth is accomplished, but they stick to the rigid corset imposed by the two traditional neoclassical factors: capital and technology.

In brief, the removing of the perfect competition and rationality assumptions represent

steps in the right direction towards the unveiling of the determinants of growth. Yet they only cover a relatively narrow portion of the determinants of growth.

I.2.1.3.- The focus on capital and innovation.

Since the 1950, the mainstream of economic analysis of growth has focused on the influence of two factors on the improvement of the standards of living: capital and technology. The neoclassical approach put the stress on the former, whereas the endogenous growth school concentrated on the latter. However, despite high concentration on one of the factors, none of the approaches disregarded the other: Solow examined thoroughly the question of technology (1970) and several endogenous growth authors have never overlooked investment (Englander and Mittelstand, 1988; Baily and Schultze, 1990; De Long, 1991; De Long and Summers, 1991). Social and political factors have attracted less attention.

The emphasis on capital and technology has had a detrimental effect on the study of other constituents of growth. The constant resort to linear regressions as the basis for quantitative analyses of growth might have influenced this choice of factors. Socio-political data which could be quantified and introduced into cross-country regressions of growth is less available and reliable than data on capital or even investment in technology.

In addition, the complexity in establishing causal relationships between growth and political and social variables is far greater than when capital or technology are used. In fact, it is fairly easy to conceive growth as a linear result of investment in capital (be it physical or human). Returns in terms of growth of investment in capital and increases in productivity thus appear fairly easy to calculate. Investment in technology and technological progress are factors which are more difficult to insert in a model of growth. Advances in technology can be considered, to a certain extent, as aleatory; technological progress is related to subtle determinants such as the genius of a few individuals devoted to research to generate innovation. However, most studies have shown that there is a casual relationship between the

number of researchers, the means at their disposal, their training, and hence, investment in research and the capacity to generate innovation. And applied innovation tends to be synonymous with economic growth. Most studies of growth demonstrate a strong correlation between increases in capital and technology, and growth.

However, this seemingly clear casual relationship between investment in capital, investment in technology, and growth does not hold when studying social and political factors. The age structure of a certain region, its social dynamism, the quality, quantity and availability of human resources, the class structure or the social cohesion, as well as political and institutional factors such as the level of political conflict, the institutional cobweb, the labour relations system, the orientation of governments, or the percentage of government expenditure are more difficult to conceive as elements encouraging or deterring growth than the above-mentioned capital and technology. First of all, because of difficulties in operationalizing these concepts. Secondly because of lack of data, and finally, because of the problems in establishing causal relationships. After all, as Levine and Renelt maintain "even if government funds are always spent on growth-promoting goods, there may be complex, nonlinear trade-offs between the beneficial effect of government services and the deleterious implications of distortionary taxes" (1992, p. 951). Sentences like 'the more a country invests in machinery (or in technology), the greater its possibilities of growth are', are not easily transposable with social and political factors. Can we maintain 'the greater the level of social and political peace of any given space, the greater its possibilities of growth'? Or is it the reverse the case? Do countries with left-wing governments grow more than countries with right-wing governments? Does a rich institutional setting favour or deter growth? Do areas with younger populations have more possibilities of growth? These are questions which cannot be answered in a simple way. Correlations between these elements and growth rates tend to be very weak, and there is no explicit and direct casual link between isolated social and political variables and growth. Levine's and Renelt's review of the robustness of the most seminal cross-country growth regressions of the late 1980s and early 1990s confirms the idea that there is a positive, robust correlation between growth and the share of

investment in GDP¹¹, whereas a large variety of trade policy measures, fiscal indicators and a large assortment of other social and political indicators are not robustly correlated with growth (Levine and Renelt, 1992, p. 959). This view supports previous findings made by Newman and Thompson, who state that "the impact of social indicators on later economic growth, while significant, is much smaller than the impact of economic indicators on subsequent economic growth" (1989, p. 469).

The fact that there appears to be a closer connection between investment in capital and in technology and economic growth does not mean that both variables suffice to interpret how growth patterns evolve. Large residual elements in most equations of growth indicate that a great deal of what growth is all about remains unexplained. Furthermore, as Levine and Renelt reveal, most cross-country growth regressions can barely withstand slight alterations in the list of explanatory variables used (Levine and Renelt, 1992, p. 942). And even Solow - whose model is at the origin of the use of cross-country regressions in growth- thoroughly criticizes recent attempts, because they "seem altogether too vulnerable to bias from omitted variables, to reverse causation, and above all to the recurrent suspicion that the experiences of very different national economies are not to be explained as if they represented different 'points' on some well-defined surface" (1994, p. 51). He adds in his demolishing critique of recent growth studies, that "the temptation of wishful thinking hovers over the interpretation of these cross-section studies. It should be countered by cheerful scepticism. The introduction of a wide range of explanatory variables has the advantage of offering partial shelter from the bias due to omitted variables. But this protection is paid for. As the range of explanation broadens, it becomes harder and harder to believe in an underlying structural, reversible relation that amounts to more than a sly way of saying that Japan grew rapidly and the United Kingdom grew slowly during this or that period" (1994, p. 51). Therefore, as Pack indicates, cross-country regressions explaining growth rates should not be swallowed as a

¹¹ Nevertheless, cross-country regressions relying exclusively on variables like investment in capital and in technology may be biased from simultaneous causation, since, in general term, the greater the growth rate of a given country, the greater its capacity to generate larger savings, and thus more investment.

casual story. "Such regressions provide rough order of magnitude and indications of where to search for explanations of growth, but cannot articulate the connection between factor accumulation and growth" (1994, p. 69).

Furthermore, most recent growth regressions do not take into account the fact that we are witnessing a significant structural change of planetary dimensions which is rendering investment and capital much more mobile than ever before. Socio-economic restructuring and rapid economic integration have removed most locational constraints to capital and technology. Advances in technology, in informational technology, world banking and deregulation trends have made financial capital almost ubiquitous, while productive capital, although still rather static, is much more mobile than hitherto. Raw materials no longer circumscribe the emergence of a certain type of industry: advances in technology which reduce the amount of raw material per unit of output, combined with progress in infrastructure and transportation technology (and, therefore, in transportation costs) have reduced the importance of the existence raw materials as a source of growth. And technology can easily be exported -or assimilated and copied- from the producing country to far away areas. As Grossman and Helpman point out, "it may be that the high technology products manufactured in one country can be improved as readily by research labs in a foreign country as they can by labs located nearby" (1994, p. 39). However, most growth regressions have been inclined to overlook these factors and to concentrate on embracing or rejecting the neoclassical model of growth. Of course, several exceptions need to be mentioned. There have been several attempts to model the globalization of the world economy. Different degrees of integration into world markets have been studied by Rivera-Batiz and Romer (1991), whereas Feenstra (1990), Grossman and Helpman (1991), and Dollar (1992) have concentrated in the analysis of the development of trade as a promoter of growth. But, despite these exceptions literature on economic growth, on the one hand, and on socio-economic restructuring and production shift, on the other, have followed parallel paths with little interchange of information.

In sum, it could be stated that economic growth is increasingly not just the linear result of the interaction of a limited number of economic factors, but the consequence of a complicated and multifaceted process in which social, political, and cultural elements -along with economic factors- play significant roles. However, most growth theories -because of what Streeck calls an 'excessive fascination with high technology' (1991, p. 28)- tend to overstate the sway of capital and technology, paying relatively little attention to factors that may have a great influence on growth. Political, social, cultural, administrative, juridical and demographic realities are being increasingly investigated, but they still play a supporting role to capital and technology. The former are factors which may favour or deter growth to the same extent as technology and capital do -especially, as has been stated before, in a world where technology and capital become increasingly mobile- and which very often predetermine the growth potential of an area.

There is thus a need to analyze in greater depth noneconomic components in order to better understand the genesis of growth, and to reduce the importance of what Vaizay long ago -when referring to technology- labelled the 'residual factor' (1964). Now that technology has become an endogenous element in the equation of growth, other factors have to be given the same treatment and be introduced with more vigour in growth models. Moreover, there is also a necessity to revise the method of approaching growth and to imagine new models or ways of tackling the connection between growth and a set of economic, social and political variables in a nonlinear basis. Several authors have already highlighted the need to resort to case studies or to the study of economic growth from the approach of development economists and economic historians (Crafts, 1992; Grossman and Helpman, 1994). But even within the world of quantitative research cross-country and cross regional-regressions should be complemented with other nonlinear approaches relating growth and the possible factors behind it.

This thesis will deal precisely with these issues. Is the sway of social and political conditions on long-term growth now more evident than before? Is growth increasingly

dependent on the existence of a certain set of social and political conditions? Does the presence of low unemployment levels, advanced universities, low levels of conflict in labour relations but also high involvement of local actors and associations in community life and of a dynamic regional government encourage growth in regions to the same extent as technological progress and investment? Do variables like learning by doing, institutions, demography, age structure, political setting, or industrial relations matter to current growth rates? In the following pages I will try to give a brief outlook of recent attempts to introduce social and political factors in the analysis of long-term growth before trying to detect which are the main strengths and weaknesses of these approaches. Finally, I will set the theoretical basis of the empirical analysis of regional growth which will be conducted in the following chapters.

I.2.2.- SOCIAL AND POLITICAL FACTORS IN GROWTH THEORY

The concentration of most growth theories on capital and technology does not mean that other factors influencing growth have been completely disregarded or overlooked. There is a rich tradition in the analysis of noneconomic factors of growth; a tradition that goes back at least to Sombart, Weber, and Durkheim. Sombart, for example, draws special attention on the role of entrepreneurship as a key to generating capital and economic wealth (1928). From a more economic approach, Schumpeter continued this tradition with his notion of creative destruction: a concept which was widely dealt with by growth economists like Gerschenkron (1962), whose analysis of economic backwardness and industrialization is embedded in concepts like inherited social conditions, social attitudes, entrepreneurship, spirit and ideology. Kuznets (1966 and 1971) also paid considerable attention to noneconomic factors influencing growth like social structure, demographic patterns, or political structure.

Development economists also examined the influence of noneconomic variables in growth rates. Myrdal (1957), for example, constantly suggested the need to investigate social and political factors together with international trade in the analysis of growth. Rostow (1961

and 1963) constantly refers in his works to the idea of the entrepreneurial culture of a country.

The appearance of the human capital theory in the 1960 shifted some attention from capital accumulation to education and training as two of the main constituents of economic growth. Singer pioneered this drift. In his 1965 article "Social Development: Key Growth Sector", he pleaded for more attention to the social aspects of development of health, education and nutrition (1965, p. 5), opening the path to the social analysis of growth. Seers (1969) took over Singer's approach. He underscored the need to resort to social and political conditions in order to achieve a better understanding of growth trends. And Thirwall suggested expanding the notion of residual factors not only to technical progress, but to other factors such as learning by experience, education, or organizations skills (1972, p. 123). However, the gulf between theoretical production on the socio-political factors of growth and empirical output was large. Empirical studies carried out by supporters of social growth theories did not radically differ from those developed by neoclassical authors.

Coinciding with the decline of interest in growth during the 1970s, research on the connection between social conditions and growth dropped. And it was not until the end of the 1970s and early 1980s when two very different theories set the bases for a renewed approach to growth.

Fred Hirsch in his book *Social Limits to Growth* (1977) inaugurated a new path for the study of growth from a social perspective. He asserts that social, as well as physical, resources impose a constraint to growth. Those limits are fixed, on the one hand, by the existence of 'positional' goods, that is to say, those whose income elasticity of demand is high but whose price-elasticity of supply is either low or zero, and, on the other hand, by the erosion of morality and of the established system of values. Growth is further restricted by the extension of welfare, since the maximization of one's self-interest implies (surpassing Pareto's optimum) a parallel reduction of somebody else's and, ultimately, of collective well-

being. The maximization of the individual's or the individual group's welfare implies a reduction in amenity-value and causes inflation, frustration and waste. The shift from a material economy to a positional one brings about a reduction in the growth of really productive industries in favour of distributive industries. As Hirsch puts it: "fewer people grow things or make things; more people service, entertain, consult, supervise. The effect is to reduce the area of the economy in which personal productivity can be identified and to increase the influence of accepted or imposed norms in the determination of relative pay. That might be the most significant feature of the modern transformation in the structure of the labour force as between manufacturing and service industries. In the service economy, personal productivity is subjectively assessed rather than objectively measured" (F. Hirsch, 1977, p. 43). Furthermore, according to Hirsch, the increase in power of manual workers and their unions might endanger the stability and the efficiency of advanced economic systems. As Reisman (1990) mentions, in Hirsch's view "social limits to growth will not be eliminated by the mere process of material growth itself. Expansion may be an alternative to redistribution in the material sector of the economy (...) it cannot be an alternative in the positional sector, where one man's gain remains another man's loss" (Reisman, 1990, p. 271).

Mancur Olson, in *The Rise and Decline of Nations* (1982), rather than concentrating in the individual, directs his attention towards social organizations. He tries to demonstrate that a nation's rate of economic growth is inversely correlated with the presence of 'encompassing' organizations and interest groups within its territory. In a socially advanced democratic society an important paradox is established: large groups, at least if they are composed of rational individuals, will not act in their group interest. According to Olson's view of society, achieving either efficiency or equity through comprehensive bargaining is out of the question. "Some groups such as consumers, tax payers, the unemployed and the poor do not have either the selective incentives or the small numbers needed to organize, so they would be left out of the bargaining. It will be in the interest of those groups that are organized to increase their own gains by whatever means possible. This would include

choosing policies that, though inefficient for the society as a whole, are advantageous for the organized groups because the costs of the policies fall disproportionately on the unorganized" (Olson, 1982, p. 37). Thus, special interest organizations erect themselves as barriers to economic efficiency. Due to the pressure from well organized groups, decision-makers are constricted to adopt resolutions, in a sort of log-rolling process, which, although beneficial to a minority, may turn out to be harmful to the majority. Therefore "countries that have had democratic freedom of organization without upheaval or invasion the longest will suffer the most from growth repressing organizations and combinations" (Olson, 1982, p. 77).

These theories have introduced a new and challenging dimension in the analysis of economic growth. Progress is no longer explained just in terms of capital accumulation and investment, and technological progress. Social and political elements such as pressure groups, social classes, social actors or even individuals are not considered any more as mere spectators of the growth process. On the contrary, they become active participants, whose role is to limit and control the economic forces in a given society.

It is, however, in this bounding role where lies, in my opinion, one of the main weaknesses of the above-mentioned social approaches to growth: social factors, at least from a Hirschian point of view, are only conceived as restricting factors of growth. That is, they alter and modify economic trends from the outside. Growth remains, thus, a fundamentally economic process in which other factors play a certain, but secondary role. Social factors still constitute external factors¹².

¹² There is however a fundamental difference between Hirsch's and Olson's social approaches to growth. While Hirsch, in fact, circumscribes social factors to the role of hindrances and obstacles to economic growth, with very little implication in the actual genesis of growth, Olson goes one step further. He tries to introduce the influence (in this case, negative influence) of non-encompassing pressure groups into the equation of growth. As he mentions: "sufficiently encompassing or inclusive special-interest organizations will internalize much of the cost of inefficient policies, and accordingly have an incentive to redistributive income to themselves, with the least possible social cost, and to give some weight to economic growth and to the interests of society as a whole" (Olson, 1982, p. 90). This represents a meaningful attempt to raise a social factor to the status of independent variable, and, hence, to recast as internal what had always previously been considered as an external bounding factor to growth.

The configuration of these social theories of growth from a deductive point of view is another meaningful impairment. The attempt to construct *a priori* social or political theories of growth, liable of being universally applied *a posteriori*, limits the explanatory power of these theories when confronted with empirical evidence. And although, especially in Olson's theory empirical data seems to confirm -at least partially- his statements, it is highly unlikely that the theory would remain as 'performant' if the basic parameters were changed: time (i.e., from post-IInd world war developed societies to Europe in the 16th century), space (from developed to underdeveloped nations) or scale (from European states to regions).

Endogenous growth theorists have also not been invulnerable to the appeal of noneconomic factors. Human capital, the dimension and capacity of governments to eliminate inefficiencies, and to a minor extent, demography, are the fields where the greatest breakthrough has been achieved.

Human capital, and especially investment in human capital has long been regarded as one of the main factors fostering growth. Together with physical capital and the technological factor, the insertion of investment in human capital in the regression of growth has been a constant since the 1960s. More investment and more schooling was the traditional recipe for promoting growth for most neoclassical theorists (Romer, 1994). Since the reawakening of growth studies in the second half of the 1980s, the attention paid to human capital issues has been growing, and authors like Romer (1989), Dasgupta (1990), Barro (1991), Mankiw, Romer, and Weil (1991) -just to mention a few- have dealt with the human capital dimension. The association of numerous educational indicators and variables with growth is constantly being put to the test in regressions. Much interest is concentrated in factors like primary and secondary school enrolments (Barro, 1991), college education, and literacy rates (Romer, 1989). Other chief issues are total and government expenditures in education and training (Barro, 1989), and -in close relationship with the technological factor- the number of scientists and engineers. Other authors have modelled the capacity of learning by doing as

the necessary complement to technological innovation (Rosenberg, 1982; Young, 1991 and 1993).

The attraction of political factors in growth theory is more recent but not less widespread. Aspects such as political stability, the overall size of government and government intervention, and fiscal policy measures are increasingly being introduced into growth equations. Barro is one of the authors who has paid more attention to the association between political factors and economic growth. He has tried to measure political stability by including variables such as an index of civil liberties, and revolutions and coups (1991); he has evaluated the overall size of government in the economy by introducing government spending (1990), and the share of real government consumption expenditures and real government capital formation (1991). Other political attributes such as the type of economic system, potential rent-seeking (Barro, 1991), the size of the black market and informal economy, and a series of fiscal policy measures like taxes, government deficits and government consumption and expenditure are important.

Endogenous growth theorists have also shown some interest in the association between demographical aspects and growth. Nonetheless, this field has represented a minor concern in the whole theory of endogenous growth, being constricted to some indicators -such as initial population indicators- in the Summers-Heston data set (1988), or some measures of population growth.

However, the increasing introduction of noneconomic and nontechnological factors as independent variables in growth models does not imply that social, political, and cultural factors have transcended their originally supporting role in the equation of growth. As mentioned before, noneconomic variables are included together with indicators of investment and technical progress in models of economic growth which reproduce -with slight alterations- the neoclassical approach to growth. In these models technology and growth tend to perform better than the social or political factors taken into consideration. As a result, the

sway of social and political indicators on long-term economic growth is considered as fragile, since most policy, institutional and social indicators are not robustly correlated with growth or the investment share (Newman and Thomson, 1989; Levine and Renelt, 1992).

The lack of robustness of noneconomic indicators lies precisely in the supporting role they play to technology and investment. Most growth equations might be biased from simultaneous causation, omitted variable problems, and excessive focus on parsimony and linearity, problems which edge out the perception of a connection between growth and noneconomic factors.

With regard to simultaneous causation, it has been often taken for granted that the more a country saves, invests in machinery and generates technological progress, the greater are its chances to grow. However, less attention has been paid to the fact that this sentence could be reversed: the higher the growth level of a country, the greater are its chances to put aside more resources to invest in machinery and in research and technology. This evident correlation between dependent and certain independent variables hides the role that other factors with no such connection might play as constituents of growth.

The goal of parsimony might also have ruled out the statistical influence of noneconomic factors on growth. The aim of focusing on a reduced set of variables signifies an extreme reduction of the complex scope of social and political factors which might have an influence on growth. The connection between one or two isolated social or political factors and growth is almost inevitably irrelevant. The population structure or the political orientation of a particular government do not alone determine growth rates. It is the complex interaction among very heterogeneous social and political variables which determines the creation of a certain socio-political setting, which altogether amplifies or limits the growth potential of a certain area. Therefore, the robustness of socio-political constituents of growth is severely impaired by the omitted variable bias.

Finally, linearity is the third major handicap for appreciating the correlation between long-term growth and the socio-political setting. It is difficult to imagine a linear and well-established connection between certain social or political conditions and growth. Social stability and the absence of social conflict do not by themselves favour or deter growth. The same could be said for the capacity to integrate immigrants or the labour structure. But these factors, together with other socio-political elements do influence the way in which actors (such as entrepreneurs, investors, public decision makers, etc.) take their decisions on whether to invest in a certain place or not, whether to risk their money in growth producing activities in that precise place and moment or to look for a better place or wait for a better time. Individual decisions are the consequence of a series of complex mechanisms -among which chance occupies an important place- that influence individuals and that are difficult to grasp by any type of causal models (Boudon, 1984). In sum, the socio-political setting provides -as Streeck (1992) underlines- opportunities and constraints for economic action. It also bestows advantages and limitations on economic activity, determining the potential of any place to grow more or less than its neighbours.

There is thus a need to consider social and political components not as minor actors, but as active constituents of the process of economic growth. In fact, I would claim that, given the complexity of a society modelled by an enormous number of interactions and cross influences, the spatial expression of social and political elements might be as important as (or, even, more important than) economic components in the genesis of growth. Such an approach, as Trigilia underlines, does not fit well in the high levels of analytical parsimony, which are common in traditional growth models. It has to work with a large number of variables, some of which are difficult to quantify (Trigilia, 1992b, p. 18).

1.2.3.- THE CONSTRUCTION OF A SOCIO-POLITICAL THEORY OF GROWTH.

The most significant advances to free socio-political factors from their supporting role vis-à-vis investment and technology in the analysis of growth, have been achieved mainly by

a few economists, sociologists, and political scientists who have dared to leave the anchoring elements of traditional factors (capital and technology), and wander into the relatively unexplored territory of the socio-political dimension of growth. As a result of their dissatisfaction with growth theory, several economists have begun to direct their attention to other fields of social science, in order to draw on ideas, already present in Schumpeter's, Gerschenkron's or Kuznets' thinking, from the subordination to technology and investment.

In this context, a group of researchers has increasingly studied the influence of factors such as the political on long-term growth (Lewis-Beck, 1988; Nordhaus, 1989; Alesina and Rodrik, 1991; 1993; Alesina and Perotti, 1993; Edwards and Tabellini, 1991).

Many of the studies on the socio-political causes of economic growth have focused on the institutional domain. Great advances have been made in the analysis of the relationship between institutions or institutional change and growth, giving birth to what has been called the New Institutional Economics (Williamson, 1985 and 1993; Frey, 1993). However, as North underlines most of the attempts to bring institutions into the analysis of economic progress have been limited by considering the institutional framework as exogenous to the genesis of growth (1991, p. 5). Therefore, the limitations already mentioned in Hirsch's and Olson's theories are reproduced, to a greater or lesser extent, in the case of the New Institutional Economics: institutions are mainly contemplated as external or restraining factors and not as explicit constituents of growth. According to North, the institutional structure is, however, more than a simple restraining or limiting factor on economic growth. The bases of unequal growth can be found, not only in the economic sphere of every society, but also in the institutional arrangements which define the rules, the informal constraints and the attributes enforcing those constraints (1992, p. 477). Institutions, thus, provide the framework for socio-economic development, influencing all kinds of activities taking place and defining the possibilities of economic growth in every society (North, 1990). Hence, "modelling institutions and the way they change is important for further progress in economic theory" (North, 1991, p. 3).

Nevertheless, most attempts to analyze the influence of the institutional dimension on the genesis of unequal growth have been centred on the static dimension of institutions (e.g. Doner, 1991). Institutional frameworks are compared cross-sectionally in order to understand how they affect economic conditions and growth trends. In contrast, little empirical research has been carried out on the topic of how institutional change shapes economic performance. As a consequence, there is little empirical evidence to support the rising choir of voices claiming that institutions, in general, and institutional change, in particular, matter to growth.

Running parallel to this concern by economists with the political setting, sociologists and political scientists have in turn been increasingly attracted by the intertwining of social and political phenomena and economic conditions. Numerous studies have been devoted to the influence of the political orientation of parties in office, trade union membership, welfare state size, government spending and processes of supranational integration on growth trends (Garrett and Lange, 1986; Lange and Garrett, 1987; Lane and Ersson, 1987; Castles and Dowrick, 1990). As Esping-Andersen and van Kersbergen stress, the basic question in this type of growth-literature is whether welfare size affected growth negatively (1992)¹³. Other topics concentrate on the study the influence of left parties and the organization of labour have on growth (Lange and Garrett, 1985; response by Jackman, 1987; and again Lange and Garrett, 1987), while others focus on government spending levels (Castles and Dowrick, 1990), or search for the explanatory variables in the international economy (Garrett and Lange, 1986). Other options adopt a more encompassing solution in the analysis of the socio-political constituents of growth. This more global approach defended by Lane and Ersson (1987), is the one which, in my opinion, deals best with the problem of the omitted variable bias. Lane and Ersson assume that economic growth is a function of the combination of several elements working together. First of all, of "the traditional economic variables: investment, labour supply, and trade -their levels and rates of change. Secondly, social

¹³ Two significant articles on this subject could be cited: Walter Korpi's "Economic growth and the welfare state: leaky bucket or irrigation system?" (*European Sociological Review*, vol. 1, 1985, pp. 97-118) and Friedland and Sander's "The public economy and economic growth in Western Market Economies" (*American Sociological Review*, vol. 50, 1985, pp. 421-37).

factors may have an impact on economic growth, either directly or in terms of their impact on the economic variables. Thirdly a set of political variables could be related to economic growth by means of their impact on the basic conditions for economic activity" (p. 6). Hence, they conceive economic growth according to the following general model:

$$EG=f(EV,SV,PV) \quad (3)$$

where EG is economic growth, EV stands for economic variables, SV for social variables, and PV for political variables (p. 6).

Afterwards, they proceed to test different sets of variables which include proportion of investments to GDP, percentage of work force and proportion of exports to GDP (EV), which could be considered in fact -the proportion of investment left aside- as non traditional economic factors; population growth, educational attainment and employment per branch (SV) and democracy, left-governments and Olson's theory of institutional sclerosis (PV).

These attempts to bring noneconomic conditions to the fore in the analysis of long-term growth represented significant steps on the road towards isolating the relationship between the socio-political setting and growth. However, in spite of these suggestive advances, a great deal of the criticism aimed at the endogenous approach to growth can be applied to purely socio-political attempts to model growth.

First of all, in spite of concentrating exclusively on social or political factors, the social and political dimensions tend to be underrepresented in these analyses. In their aim to attain parsimony, researchers concentrate on no more than three or four socio-political variables in order to explain different rates of growth: Walter Korpi focuses on the percentage of labour force in agriculture, on social security expenditures, and on government transfers (1985); Garrett and Lange on the power of left-wing parties and labour organization (1985 and 1987); Lane and Ersonn on institutional sclerosis (1987); Castles and Dowrick on

government spending levels (1990); Alesina and Rodrik on political conflict (1991); and Alesina and Perotti on income inequality (1993). These studies constitute, without any doubt, significant steps towards the comprehension of growth as a socio-political -as well as an economic- phenomenon. But, when contemplated as isolated variables, social and political indicators face the same problems of lack of robustness. Conclusions were often relatively unstable when compared with empirical results achieved by models based on technology and capital. The lack of reliability of some results led to criticisms about the relevance of the advances. Jackman, for example, criticized Garrett and Lange for sustaining 'unwarranted' conclusions in their claim that in the presence of encompassing unions, governments have a critical role in reducing the risks run by labour in pursuing a collective gain strategy, in order to achieve optimal economic performance (Lange and Garrett, 1987, p. 822). Jackman argues that Lange's and Garrett's results might be strongly biased by the growth behaviour of Norway in the period analyzed and, thus that any association between leftist strength and growth is spurious (1987, p. 247-253). The lack of plausibility of the conclusions attained by social and political models of growth might be due to the fact that social and political factors taken into consideration are isolated from a myriad of other factors, and, therefore, most of the complexity of the context in which they are inserted is lost, in favour of a theoretically more comprehensible but less performant model.

Secondly, the return to linear models in the study of growth limits their explanatory power. As mentioned before, there is no clear-cut linear connection between any of the traditional factors included in economic, social, or political growth models and economic growth. Nevertheless, the cause-effect association between investment and growth, or between technological progress and growth, is far more significant than the relationship between growth and any social and political factor. This is acknowledged by socio-political theorists of growth. According to Lane and Ersson, the degree of association with growth varies depending on whether we consider economic, social and political variables. Investment is directly associated with economic growth, whereas "different social milieux or context may have different implications for the basic parameters that determine economic growth, e.g.,

capital investment, labour input, and technology" (1987, p. 9), and political variables "may be relevant for the economic factors that condition economic development" (p. 10). Using a comparable reasoning, income inequality in Alesina's and Perotti's conception does not impinge directly on growth rates. It first fuels social discontent and increases social instability, creating later uncertainty in the political and economic environments which, as a consequence, reduces investment (1993). And cutbacks in investment prompt a reduction in growth rates. The fact is that linear models are perhaps not the most appropriate way to tackle the socio-political bases of growth. Not because they are not well structured and provide useful results -indeed, linear social or political models of growth might prove to be very performant in certain cases- but because they tend to overreduce the complexity of the socio-political context and to shatter complex links which taken as a whole -and not individually- are the factors which determine whether any given socio-political context is advantageous or harmful to growth.

I.2.3.1.- The genesis of growth in a post-Fordist society.

As we have seen, the mere introduction of sets of social and political variables into linear models of growth does not by itself solve the problem of what type of relationship there is between the socio-political setting and economic growth. In some cases, even an excessive belief in the virtues of social and political factors as motors of growth may prove to be detrimental to our understanding of growth.

Economic growth has been and is not just the linear result of the interaction of a limited number of either economic, social, or political factors, but the consequence of a complicated and multifaceted process in which social, political, and cultural elements -along with economic factors- play significant roles. When capital and technology become increasingly mobile, and when traditional economic locational factors are no longer able to explain on their own how and why economic activity flourishes in certain areas and not in others, there is a need to resort to the social, political and cultural environments in order to

grasp why, despite the profound changes which have affected our society, long-term growth trends tend to suffer only slight alterations and economic disparities linger. Socio-economic restructuring, technological progress and changes in production might not have reduced the influence of investment and technology in fostering growth, but it might have rendered the subtle connection between social and political indicators and long-term growth patterns more visible. However, this enhanced visibility does not affect the correlation between isolated social and political factors and growth. It concerns the influence a whole socio-political environment in a given place might have on actors who bear the task of taking growth promoting decisions. Entrepreneurs, politicians, companies, institutions, and individuals do not make decisions in an abstract world or in a perfect market environment. They have to act in a determined time and space setting which strongly influences their perception of risks and opportunities, of the privileges and limitations an area possesses for promoting economic activities, and of what are the advantages and drawbacks they will have to face in their growth supporting activity. The information that actors have is also limited and partial. It is greatly influenced by social and political conditions, and burdened by preconceptions and biased sources which play a crucial role in factors like the diffusion of innovation and the decision to invest.

Furthermore, the socio-political environment conditions the acceptance of innovation. Social and political conditions in some places might foster the genesis and diffusion of innovation, via the social recognition of innovation and entrepreneurship, support to technology and incentives which protect innovation. In other places, in contrast, the lack of scientific research, insufficient skills, inadequate legislation on the topic, or even low receptiveness and willingness to change by the population, cuts down the possibilities for economic progress. And this fact does not only affect the genesis of endogenous innovation or the capacity to foster local entrepreneurship, it also conditions the receptiveness of foreign originated change.

A well functioning market alone is insufficient to generate economic growth. If social

and political conditions in the context of a local or particular space did not count, then, the greater mobility of investment and technology related to socio-economic restructuring, would have probably resulted in a levelling out of disparities in wealth and an increase in economic convergence. However -as we have already seen- this seems not to be the case.

Hence, the social, political and institutional environment of every space has an important role to play in supplying what Streeck calls the basic requirements for the genesis of advanced neoindustrial production patterns: a congenial 'organisational ecology', the 'presence of redundant capacities', and a rich supply of 'collective inputs' (1991, p. 24). That is, the social and political setting provide the population structure, the education and skills, the labour and industrial structures, the politics and the institutions which determine the opportunities and constraints, the advantages and limitations of every place for the implementation of growth promoting activities. Economic actors take growth promoting decisions in a given place as a result of the positive or negative perception they have of the social and political environment.

From a social point of view, demography and education, social dynamism, receptiveness of new trends and innovation may turn out to be important factors in the genesis of economic growth. It is, therefore, crucial to map out sets of variables, such as population activity and unemployment, education, living standards and social mobility, in order to get a complete picture of how the social sphere works in each place. The quality, quantity and availability in time of human resources (what has been traditionally referred to as 'human capital' in some economic analysis), the skills and the accessibility of the labour force, well-being and living standards in the broadest sense of these concepts, predispose a society to benefit from factors such as the genesis, diffusion, adoption, mastering and acceptance of innovation. And an innovative society is more able to compete in an open economy than societies which lack the dynamism to transform their lower capacity to innovate and accept foreign innovation into productive effort, and, thus, economic growth.

The same could be said for political conditions and institutions. Tense political environments, corruption, instability, conflicts among administrations, inadequate legislation, and slow bureaucracy are some of the political and institutional burdens which might deter growth promoting activities to the same extent as lack of capital or obsolete technology. But this does not mean that a reduction of the state and political apparatus is the solution for achieving greater growth. As Streeck underlines, a rich political and institutional environment is also a guarantee against unfair practices and against the rule of aggressive habits which might drive economic actors out of the market and lead to the setting up of suboptimal market and economic conditions for growth. According to Streeck, institutional mechanisms contribute to "overcome suspicion among competitors, insure firms against opportunistic defections of partners from implicit contractual understandings, and enable firms to invest not only in their own performance but also in that of other firms in their environment, thereby contributing to the collective good of a dense organisational ecology of potential strategic allies" (Streeck, 1991, p. 35), and, consequently to setting the most adequate environment for the development of economic activity.

I.2.3.2.- Economic actors as social actors.

One of the main assumptions of traditional theories of growth was that of the perfect information of economic actors in the market, which led them to take the most adequate economic decisions at any given time. However, there are no differences between an economic actor and a social actor; the same individuals who operate in society make up the investors, entrepreneurs, workers, consumers, and decision makers in the economic arena. Thus, either all individuals have perfect information, or the information in the hands of economic actors is partial and strongly influenced by the socio-political and cultural environment in which social actors have grown, operate and live. Therefore, economic actors will decide whether to invest or not invest, whether to risk or not to risk their money, whether to consume or not to consume -in sum, to generate growth promoting activities-based on their perception of a set of social and political circumstances.

Social actors in their role as investors and entrepreneurs will decide whether to invest their money -and their time and work- in their place of origin or in other areas, depending on the returns they expect to have in any given place and under a certain set of socio-political circumstances. And their expectations are largely determined by their opinion about the social and political environment -as well as by the economic situation- of the possible location of the growth promoting activity. Investors and entrepreneurs have to evaluate whether the social setting provides the appropriate amount of workers with the specific skills for the task, and whether the predominant type of labour relations is the most adequate for the fulfilment of economic activity. They also have to consider the institutional setting in order to ascertain that their investment is secure from arbitrary decisions by administrations, sudden changes, or unfair practices by other investors or entrepreneurs. In addition, they have to evaluate the market perspectives which are largely determined by the social attitudes of a given population to change and novelty, and, besides, the social dimension conditions the development of entrepreneurship. Investors and entrepreneurs have to consider factors such as the social acceptance of entrepreneurs, fiscal and labour regulation and incentives in order to direct their efforts to growth promoting activities, or other activities -perhaps more profitable from an individual point of view- with less emphasis on growth.

Social actors in their role of workers also shape growth. Institutions and society are responsible for giving workers the adequate skills and training for the fulfilment of economic activities. Lack of manpower, deficient education and training, low capacity to recycle skills, and lack of redundant capacities become serious handicaps for the completion of productive activities. The social, political, and institutional settings also define labour relations and social unrest. The absence of well defined rules, or traditions of breaking established rules in the field of labour relations, severely impair the normal pursuit of economic activities, and may ultimately become a strong deterrent for investment.

Social actors are also consumers, who by means of purchasing certain goods or services help to stimulate economic activity. With the increasing globalization of the world

economy, consumption of local products by local consumers is losing relevance on a global scale, but it is still essential for the development of newborn companies, whose capacity to compete in distant markets is fairly limited. The receptiveness of consumers in a certain area to local products and to innovation thus also becomes an incentive or an obstacle to economic progress.

Finally, even if actors take economic decisions based on their perception of the whole socio-economic and political context, there is a great degree of a subjectivity in economic decision making. Ideas or prejudices about the supposed laziness of this or that group, or about the intelligence or lack of intelligence of certain human groups, are deeply embedded in collective thinking. They are socially re-produced and influence economic actors. Moreover, it is not always true that economic actors make decisions led by the determination of obtaining the highest profits. Numerous economic resolutions are taken taking into account other factors -ranging from altruistic, to sentimental, or even purely irrational decisions- than pure economic profit.

In brief, the social and political conditions -taken as a whole and not as isolated factors- bestow every place with a set of capacities, skills, an image and a framework which make it attractive or unattractive to socio-economic actors, who ultimately decide on the basis of their perception of these conditions whether to pursue their economic activities in this or in another location.

I.3.2.3.- Present and inherited social and political conditions.

The social and political environments are not just the result of how social and political circumstances combine in any given place in a certain time. They are the outcome of a complex combination of processes which are being developed in the present and which have taken place in the past.

Inherited social and political structures have contributed to the formation of a unique socio-political frame in every place, which grants every location an image, an appeal, and a set of constraints and opportunities, of advantages or limitations which constitute a great deal of the growth potential of every space. The nature of spatial disequilibria and different rates of growth, is derived from the uniqueness of the process in which inherited social and political conditions are combined with present economic, social, and political circumstances. The blending of the economic, social, political and cultural settings is accomplished in different ways according to changing time-space coordinates. As a consequence, no two places bear the exact same conditions for the development of economic activity, and the implementation of the same economic process in different locations will result in diverse economic outcomes, because every socio-political setting will impinge diversely on that process.

In addition, the economic, social and political circumstances which influence economic activities are not felt on the same time scales. There is a significant lag in the rhythms of economic, social and political change. In an advanced capitalist society, investment is translated into economic growth in a relatively short period of time. Political and social conditions, in contrast, might exert a meaningful influence on economic activity only on a medium or even long term basis. Shortage of educational skills affects not only present but future economic activity, and the correction of this deficiency can only be achieved in the span of a generation. The same happens with the institutional setting. The economic effects of the passing of the law are not automatic. In certain cases the beneficial or detrimental effects of a certain political act or a certain institutional change on the economy are only felt after a period of several years. And within the social and political realms, some changes might have a more immediate effect on the economy than others. For example, changes in the structure of the labour market, or in employment rates affect economic developments more rapidly than changes in training and skills of the population. And the process of change in education and training tends to occur at a faster rate, than changes in demographic tendencies.

Moreover, the social and political dimensions are extremely resistant to change in comparison to the relatively feeble rigidities of the economic world. Economic integration in the EU, for example, has clearly outstripped social and political integration.

Finally, cultural transformations affecting the economy can only be observed in the much longer term. The metamorphosis of collective norms and of traditions is achieved only after a very long process -often lasting centuries- of adaptation to innovation.

In sum, it could be stated that socio-political conditions play an indirect but determining role in the genesis of economic growth and of territorial disparities, although this role might have been hidden until now by the various factors mentioned: the focus on investment and technology in the genesis of growth, the lack of a clear cut and direct relationship between social and political elements and growth, the adoption of linear models, and by the delayed influence that the socio-political context exerts on economic activity. However, the changes associated with the process of socio-economic restructuring -which have rendered capital and technology much less territorially constrained- might spur research from different perspectives on the socio-political bases of growth. Consequently, in a more integrated and competitive world, local social and political circumstances might play an essential role in the genesis, reception and assimilation of technology and information, and in the development of economic activity. The successful adoption of novel technologies and techniques, and the manipulation of expanded information, relies heavily not only on the capacity of a few individuals or companies to invent new procedures and to compile massive amounts of information, but also on the capacity of any social and political actor or group to supersede handicaps and to respond rapidly to challenges. It is in this sense that the social and political setting pre-determines the receptiveness to novelty and the acceptance of innovation in a determined place, and, thus, the capacity of every society to generate economic growth. Current levels of growth of a nation, a region or a locality are the outcome of how different production systems and social and political regimes have been successively combined (Massey, 1984, pp. 117-118).

CHAPTER II

REGIONS AND GROWTH:

UNIT OF ANALYSIS AND DEPENDENT VARIABLE

Prior to trying to evaluate empirically the socio-political bases of regional growth in Western Europe, two questions have to be addressed. First of all, the significance of regions as a valid unit of analysis and, secondly, how to measure the dependent variable, how to measure growth, and whether a new regional growth pattern is emerging.

One of the main dilemmas when analyzing growth in a post-Fordist environment is whether regions and not nations constitute the most adequate unit of analysis. According to Krugman's, Porter's, and O'Brien's postulates (vid. Chapter I), with the establishment of a flexible production model, identified by greater economic decentralization and a supposedly decreasing influence of national borders, regional growth patterns become less dependent on national growth trends, and more connected to the endogenous conditions of every region.

This question is closely related to the problem of the measurement of growth rates. If regional growth rates are completely unaffected by the national context, then the choice of growth rates is limited between growth rates measured in a common currency or in purchasing power standards. If, in contrast, regional growth rates vary according to national conditions, then the choice of growth rates will have to take into account the influence of the national dimension in order to avoid misinterpretations induced by national growth rates. Thus -and in spite of the fact that this question has awaken relatively little interest in scientific literature- the option between plain or nationally weighted regional growth rates becomes a fundamental issue.

II.1.- WHY REGIONS AND NOT NATIONS?

The cross-sectional study of growth has been mainly carried out at a national level and not at a regional one. Since the pacesetter works of Schumpeter, Harrod, Domar, and Solow, applied research on the topic has dealt with the growth trajectories of nations. The endogenous approach to growth has been no exception: the renewal of interest in growth was to a certain extent provoked by the compilation of new datasets which allowed to research the question of economic growth from new perspectives and with greater accuracy. The databases compiled by Maddison (1982), and by Summers and Heston (1988) -which acted as the base for most recent studies on growth- contained information at a national level. As a consequence, recent research on growth has focused on issues like convergence, increasing and diminishing returns to investment, or the role of technological progress in a national context.

Growth studies performed from a more sociological or political perspective have remained faithful to the same spatial dimension. As Esping-Andersen and Van Kersbergen (1992) point out, previous empirical studies concerned with the influence of social and political variables on growth chose the nation as the unit of analysis. Lange and Garrett (1985), Garrett and Lange (1986), Lane and Ersson (1987), or Castles and Dowrick (1990) have analyzed in different articles the influence of various types of government, government spending, trade union membership and other political and social variables on growth at a national level. The same could be said for other social and political attempts to tackle economic growth. Mancur Olson (1982), when testing his theory empirically, resorted to comparisons of growth performances of Western European and American nations. Further attempts to test Olson's theory (Choi, 1983) have stuck to nations, and Williamson's (1985 and 1993), and Alesina and Rodrik's (1991 and 1993) theories of institutional and political change and growth have been conceived for the national dimension.

On the contrary, the study of regional growth has been largely limited to case studies.

And even at this level, it has only been dealt with tangentially. Regional case studies have flourished in recent years. Nevertheless, most of this literature has been concerned with the questions of technological change and socio-economic restructuring, with the focus on regional growth limited to a discrete background. This interest in regional questions has produced several approaches to the issue of regional restructuring and regional growth, which have tended to concentrate on separate groups of case studies. These approaches could be assembled -in a somewhat sketchy manner- into the following sets:

a) The flexible specialization approach. Beginning with the works of Piore and Sabel (1984), this mainly North American approach has been based on the idea that the crisis in the Fordist model of mass production has provoked a process based on a reinforcement of linkages between supply and demand, in which technology plays the leading role (Gottdiener, 1989; Storper and Scott, 1989; Dear and Wolch, 1989; Scott and Storper, 1992; Cooke and Morgan 1992a; Castells and Hall, 1994). Empirical studies conducted by this approach have been fundamentally American based, concentrating in areas like the Silicon Valley, the Orange County, Route 128 in the Boston area, and the city of Phoenix.

b) Closely related to the previous approach, although stemming from a very different origin, we find the Italian industrial district approach (Becattini, 1979; Bagnasco, 1988; Trigilia, 1988 and 1992b; Pyke, Becattini and Sengenberger, 1990; Dunford, 1991; Porter, 1990, and also Scott and Storper, 1992). This approach emerges from the analysis of the success of small and medium enterprises in the centre of Italy. Empirical research on the districts of Prato or Faenza, or on the region of Emilia-Romagna, is based on principles such as the permanence of a deep-rooted craftsmanship tradition as a source of *entrepreneurship*; a strong degree of competition between enterprises, forcing industries to look for original solutions to problems; and the presence of a solid social network.

c) The influence of case studies is less evident in the French regulation school. This approach, inspired by the work of Gramsci, claims that the breakdown of the capitalist model

of regulation and accumulation is the key to understanding the current transformations in the system of production. The crisis in the model has given leeway to meaningful local changes and to the establishment of production networks (Aglietta, 1976; Boyer, 1986 and 1989; Leborgne and Lipietz, 1989, 1992; Benko, 1992; Lipietz, 1993). Empirical analyses by the French regulation school have been mainly conducted at the level of industrial sectors. Nevertheless, industrial clusters in certain regions have also been a repeated object of empirical study.

d) The diversified quality production school constitutes the fourth approach to the question of socio-economic restructuring and production change. This fundamentally German approach stresses the role played by institutions as a motor of changes in the production process. As in the case of the French regulation school, diversified quality production theorists tend to focus on the analysis of industrial sectors in order to construct, test, or reject their theories (Willman, 1986; Sorge and Streeck, 1988; Sorge and Warner, 1986; Streeck, 1987, 1989, 1991, 1992). However, this emphasis on industrial sectors and institutions leads to a combination of both in certain regions which have become the paradigmatic example of success stories in this approach. The German *Land* of Baden-Württemberg is the preferred laboratory for the analysis of how industrial sectors and institutions in order to generate diversified quality production environments (Semlinger, 1993).

Thus, the study of economic growth and development has been dealt with until recently on a double level: national cross-sectional studies, on the one hand, and regional and industrial sector case studies, on the other. However, several exceptions to this rule can be highlighted. First of all, and at the level of the European Community, a cross-sectional analysis of regional growth between 1950 and 1970 was undertaken by Molle, Van Holst and Smidt (1980), whose regional data set, together with the REGIO database of the Statistical Office of the European Communities, have become the base for further regional studies. The European Commission has published since 1981 five Periodic Reports on the Socio-economic Situation and Evolution of Regions in the EC (1981, 1984, 1987, 1991, 1994) in which

factors such as the regional evolution of GDP, employment, and economic sectors are thoroughly studied. More recently, Barro and Sala-i-Martin (1992a and 1992b) have addressed the question of convergence across states and regions in the United States and in the European Community, and Mick Dunford has scrutinized the evolution of regional disparities using the empirical data incorporate the REGIO databank (1993).

Most of these studies deal with points like the existence of convergence or divergence at a regional level or limit themselves to the analysis of regional trajectories, without making the step of examining in depth the causes which spark growth. More in depth studies of the bases for economic growth are achieved when only a certain type or homogeneous group of regions is spotlighted or when a pre-determined nation is analyzed at a regional level. This is especially the case of urban regions, where a myriad of European range studies have delved into the origins of the enhanced concentration of wealth in recent years (Brunet *et al.*, 1989; Cheshire and Hay, 1989; Cheshire, 1990; Dunford and Kafkalas, 1992). The same could be said for industrial declining regions (Quévit *et al.*, 1991), lagging peripheral areas, or inland regions. Attempts to unveil the political bases of regional growth in given national contexts have been carried out on Germany by Manfred Schmidt in his book *CDU und SPD an der Regierung* (1980) and on Italy by Robert Putnam (1993).

In brief, the field of cross-sectional studies on the causes of growth at a regional level has been relatively restricted in comparison with the strength and vigour of cross-sectional studies at a national level and regional case studies. Among the reasons that I could refer to in order to explain this shortage of cross-sectional analyses, two stand out. In first place, the existence of a long tradition of research on comparative growth has aroused an absorbing and fruitful debate on the conditions of growth at a national level, which has thus captivated most attention.

But perhaps the main reason behind the scarcity of cross-sectional analysis of regional growth is data. As Romer points out, the renewed interest in growth at a national level found

a crucial stimulus in the emergence of new data sets with information for many countries and long periods of time (1994, p. 4). The Maddison (1982), and the Summer-Heston (1988) datasets, together with information coming from the UN's, World Bank's, IMF's, and OCDE's data banks make up the core of a reasonably well structured information set - although still full of gaps- for the study of long term growth. Some of the lacunae in these datasets are being filled up by analyses carried out by individual researchers.

Similar databases for the study of long term growth rates at a regional level in Europe are simply not available. In the EC the Statistical Office is making a huge effort in order to compile a well organised and complete bank of regional data: the REGIO databank. However, this is a long range and arduous task that will still take many years until it is fully accomplished. Up to date, regional information is partial, full of gaps, and unsuitable to undertake studies of growth on a long term basis. There is a considerable amount of information available on questions like GDP, gross value added and employment per sector, which, in the cases of a considerable number of regions could be traced back to 1950. Indicators on activity rate, unemployment, agriculture and land use, population, and other demographical aspects are fairly well represented in the REGIO database since the beginning of the 1980s. There is, nevertheless, little or no information for the whole of the EU at a regional level on other social aspects like education, migration, poverty, minorities, industrial relations and trade unions. And political data is almost completely absent. Researchers need to resort to national statistical sources in order to fill in the gaps. But then again, using national sources entails serious problems of compatibility and comparability of data. As a result, the lack of reliable data at a regional level is the main reason why researchers pursue the national path rather than the regional one.

II.1.1.- REGIONS VS. NATIONS. ON THE QUESTION OF THE EMERGENCE OF REGIONS AS A VALID UNIT OF ANALYSIS.

If the choice of regions in the EU poses, as we have seen, significant problems to the study of growth, in general, and of the socio-political bases of growth, in particular, why stick to regions as the unit of analysis? Why not resort to nations in order to comply with the long tradition of analyses of growth at a national level and to dodge apparently unsurmountable obstacles like the shortage of reliable data?

The choice of European regions and not nations in this dissertation as the unit of analysis is by no means an arbitrary or capricious one. One of the criticisms directed in the previous chapter towards traditional models of economic growth was their disregard for the vast structural changes which the world is undergoing since the 1970s. As mentioned before, this has led to the formation of a gap -despite a few, but significant exceptions- between literature on socio-economic restructuring and cross-sectional modelling of growth. Growth modelling uses the nation as the basic unit of analysis, whereas research on socio-economic restructuring is increasingly extolling the role played by regions in the postindustrial world.

Numerous authors from the field of socio-economic restructuring and production change have stressed recently the growing importance of regions and their new role as basic economic actors in the configuration of a new spatial pattern of economic development. Some of the studies in this field have raised interesting questions about the adequacy of pursuing comparative national approaches in the framework of the present shift from a mass production structure to a flexible one (Trigilia, 1986 and 1988; Komninos, 1989; Porter, 1990; Ohmae, 1990; O'Brien, 1992). To a certain extent, literature on socio-economic restructuring underlines that current trends are leading to a meaningful loss of influence of state boundaries in the genesis of growth. From this point of view, it is considered that, as the integration of world economy progresses, the autonomy of nation-states to set their own independent economic policy diminishes. Economic 'sovereignty' is progressively eroded,

and economic activity seems to be distributed either on a macro-national scale or concentrated in regional clusters (Leborgne and Lipietz, 1992). Thus, the influence of the nation-state enters a slow but steady decline and the region is proclaimed by some as the post-Fordist territorial unit *par excellence*.

Nonetheless, and in spite of this rising tide of studies saluting the virtues of the region as an adequate unit of analysis in the post-Fordist world of flexible production, little empirical research has been carried out in order to check whether this assertion holds across different regional settings.

This section will, therefore, deal with the question of the adequacy of the choice of regions against nations as a valid unit of analysis in the European Union, and with the specific choice of a certain regional level among the possible regional divisions available in the European context.

II.1.1.1.- Regions as the unit of analysis.

The decline of the Fordist mode of mass production and the introduction of flexible production structures has led to a revision of established spatial patterns and focused considerable attention on the emergence of new foci of regional development. Literature on post-Fordism has stressed that traditional long-established spatial contrasts have been shaken by the rise of economic networks (Sassen, 1990), by the evolution of technological knowledge and managerial structures (Storper and Scott, 1989, pp. 21-40; Scott and Storper, 1992, pp. 7-38; Leborgne and Lipietz, 1992, pp. 39-68) and by advances in information and information technology (Castells, 1989). Furthermore, the sharp decline in transportation costs has contributed to reducing the handicaps of distant regions as competitors in the economic arena. Therefore, in theory, growth and development in a post-Fordist world could blossom in regions which, due to structural or locational constraints, played a very reduced economic role during the entire Fordist era.

Running parallel with these developments, soaring interdependency rates and the globalization of the world economy have meant that the role of the nation-state has also been challenged. The greater degree of market integration, the completion of the Single European Market and the ratification of the Treaty of Maastricht have been considered by some as significant additional steps towards the eradication -at least in the economic sense- of the borders of the nation-state in the EC. Thus, in the post-Maastricht European framework, the state is beginning to be increasingly regarded by some as an outdated territorial structure whose influence on economic trends and activities is progressively shrinking.

While the national frame appears to be losing ground because of market integration and increasing economic interdependency and when one-nation macroeconomic policies seem to fail in achieving their goals, regions, on the contrary, are increasingly contemplated as compact markets where competition is developed and, above all, where the flexibility of production methods and economic restructuring is accomplished (Komninos, 1989, pp. 348-364 and Porter, 1990). Hence, the region is gaining ground as the star territorial unit of economic analysis in Western Europe. As Paul Krugman points out:

"as Europe becomes a unified market, with free movement of capital and labour, it will make less and less sense to think of the relations between its component nations in terms of the standard [nationally-oriented] paradigm of international trade. Instead the issues will be those of regional economics" (1991a, p. 8)

Even Michael Porter in his book *The Comparative Advantages of Nations* questions the role of the nation as a relevant unit in economic analysis. Porter indicates that "competitors in many internationally successful industries, and often entire clusters of industries, are often located in a single town or region within a nation" (p. 154-5). Thus, for Porter, the city or the region becomes "a unique environment for competing in the industry" (p. 156), and he concludes that "the importance of geographic concentration raises interesting

questions about whether the nation is a relevant unit of analysis" (p. 157).

Consequently, a significant body of literature has been developed around the economic function of sub-national areas. The study of the spatial consequence of shifts in production structures and the rise of the service economy has been mainly focused on regions and cities, with little reference to nations, especially when matched to the long tradition of comparative studies taking the nation as the unit of analysis. Therefore, great attention has been shifted to the study of phenomena like the economic ascension of regions representing high technology growth centres and *technopoles* (Silicon Valley, Orange County, the London-Bristol axis, or the Munich and Stuttgart areas), renovated craft communities (the Third Italy), or service and financial centres (New York, Los Angeles, London, Paris, or Frankfurt). These examples have been thoroughly examined in recent years (Storper and Scott, 1989, pp. 34-37; Castells and Hall, 1994). Moreover, the number of regional and urban studies has risen exponentially in the last two decades.

In brief, it has been acknowledged that the globalization of the economy, the process of deindustrialization and the establishment of flexible production methods entail a certain reduction of the influence of national borders in the territorial patterning of growth and, therefore, the room for manoeuvre left over for national entities is shrinking as the integration of the world economy continues to erode national 'sovereignty'.

II.1.1.2.- The economic influence of states.

However, as mentioned before, there is little empirical evidence to support the idea of the vanishing national influence on the economic arena. The doctrine of flexible production -which is the main source of this renewed interest in economic, social, political and geographical literature on the regional dimension- has been mainly developed either on theoretical grounds or by resorting to the analysis of case studies. As Sayer underlines, it could be said that literature on post-Fordism is "based on selected [regional] examples whose

limited sectoral, spatial and temporal range is rarely acknowledged" (Sayer, 1989, p. 666). In contrast, little research has been carried out outside this reduced number of 'favourable' case-studies.

The purpose of this section is to try to shed some light on the question of the emergence of regions as a unit of analysis which could ultimately overshadow the nation. Is socio-economic restructuring really leading towards a greater influence of regions in the economic sphere and, hence, in economic growth trends? Do nations matter less now than before as determinants of economic trends?

These are questions whose extreme complexity and breadth clearly exceed the scope of this chapter. The spatial effects of economic integration and specialization are generated by a multitude of complicated and interwoven factors which would be impossible to grasp in the space of a few pages. Aware of these limitations, my intention is mainly to concentrate on one of the intervening factors -namely, economic growth- in order not to settle the question, but to spur the debate on the supposed decline of the nation-state and its progressive replacement by the region as a valid unit of analysis in the post-Fordist world.

II.1.1.3.- Changes in regional and national growth trends.

The main problem when trying to analyze whether the influence of regions is growing to the detriment of nation-states is, precisely, how to approach the question and how to prove it. Since there are so many variables which may have a certain sway on this problem, any approximation to the topic will be necessarily partial and provide a limited explanation, and thus should not be swallowed as a strick casual relationship. One of the possible ways of tackling the region vs. nation question -and perhaps the most adequate in the framework of this dissertation- is to resort to changes in regional growth trends as a means to determine whether there is an increase in the influence and importance of regions.

Regarding growth trends, the theory of the increasing protagonism of regions to the detriment of the nation-state presupposes that, due to greater economic integration, burgeoning flexibility in production and the achievements of supranational regional policies in the EC, the national differences in economic behaviours that were noticed in the previous chapter are subject to shrink steadily until, ultimately, borders no longer mark the sharp differences in growth rates observed during the mass production era. Thus, in a mass production model, regional growth rates would be fairly similar within national borders and deviations in growth levels would tend to be higher among nations than among regions belonging to the same country (because of the greater influence of national economic policies and the greater impact of national barriers to factor mobility). Conversely, in a flexible model of production growth rates of GDP at a regional level across countries would tend to converge, due to increasing economic and political integration, enhanced trade and the decentralization of production, whilst internal national variation in growth rates would be higher than during the Fordist era, as a purely statistical consequence of the reducing gap in national growth levels. The behaviour of regional growth rates would, therefore, be more difficult to predict. On the one hand, the concentration of financial assets in capital regions is likely to enhance economic inequalities, while, on the other hand, the decentralizing of production structures and regional policy could contribute to reducing the gap between advanced and lagging regions. Furthermore, the diminishing relevance or, even the removal, of economic and trade barriers could encourage the genesis of cross-national growth trends, where the existence of a development axis (e.g. the Mediterranean Axis, the Blue Banana or the Atlantic Arc) is more likely to influence regional growth rates than the national frame. Economic disparities in growth rates will be, in consequence, more related to socio-economic conditions within a certain region than to its insertion in a given national context.

These global tendencies could, to a certain extent, be countered by efforts at the national and EC level to reduce regional differences, via the use of regional policy or of structural funds. However, even a successful regional policy, which is capable of reducing intranational disparities -which is not always the case-, would not alter the model. An

economic blurring of national borders in a period of greater economic integration implies that international differences in growth rates would decrease at a greater pace than intranational variation. Using relative rates, instead of absolute numbers this would denote greater convergence on an international level than on the intranational dimension.

II.1.1.4.- Empirical analysis.

In order to check the hypothesis that national borders matter less now than during the heyday of mass production, I propose a simple test comparing international and intranational divergence in regional growth rates in the EC in the 1960s and the 1980s. This part of the analysis concentrates on the evolution of regional and national growth trends in the six original member states of the EC, plus Denmark, Ireland and the United Kingdom, in order to determine whether there has been, in the last decade, a certain homogenization of regional behavioural patterns in growth rates in comparison with regional growth rates two decades ago. It is supposed that, if the sway of the nation-state is diminishing, national patterns of regional growth rates would clearly differ in a mass production model from those in a flexible one.

The empirical analysis includes GDP regional data from 1960 to 1991¹. It is based on the comparison of the different regional behaviours of growth rates in two decades:

- a) 1960-1970: depicting the climax of the Fordist mode of production and of a scarcely integrated world economic market;
- b) 1980-1991: portraying the decade of flexible production and of the emergence of regions as consolidated economic actors;

in order to explore whether the behaviour in economic growth of regions in the EC is

¹ Cf. footnote 7 in Chapter I for a precise description of data sources and the problems associated with it.

becoming independent of the national setting in which they are located (and, thus, whether we are witnessing the appearance of new and consolidated regional markets), or whether, on the contrary, the national framework still constrains and regulates regional economic performance.

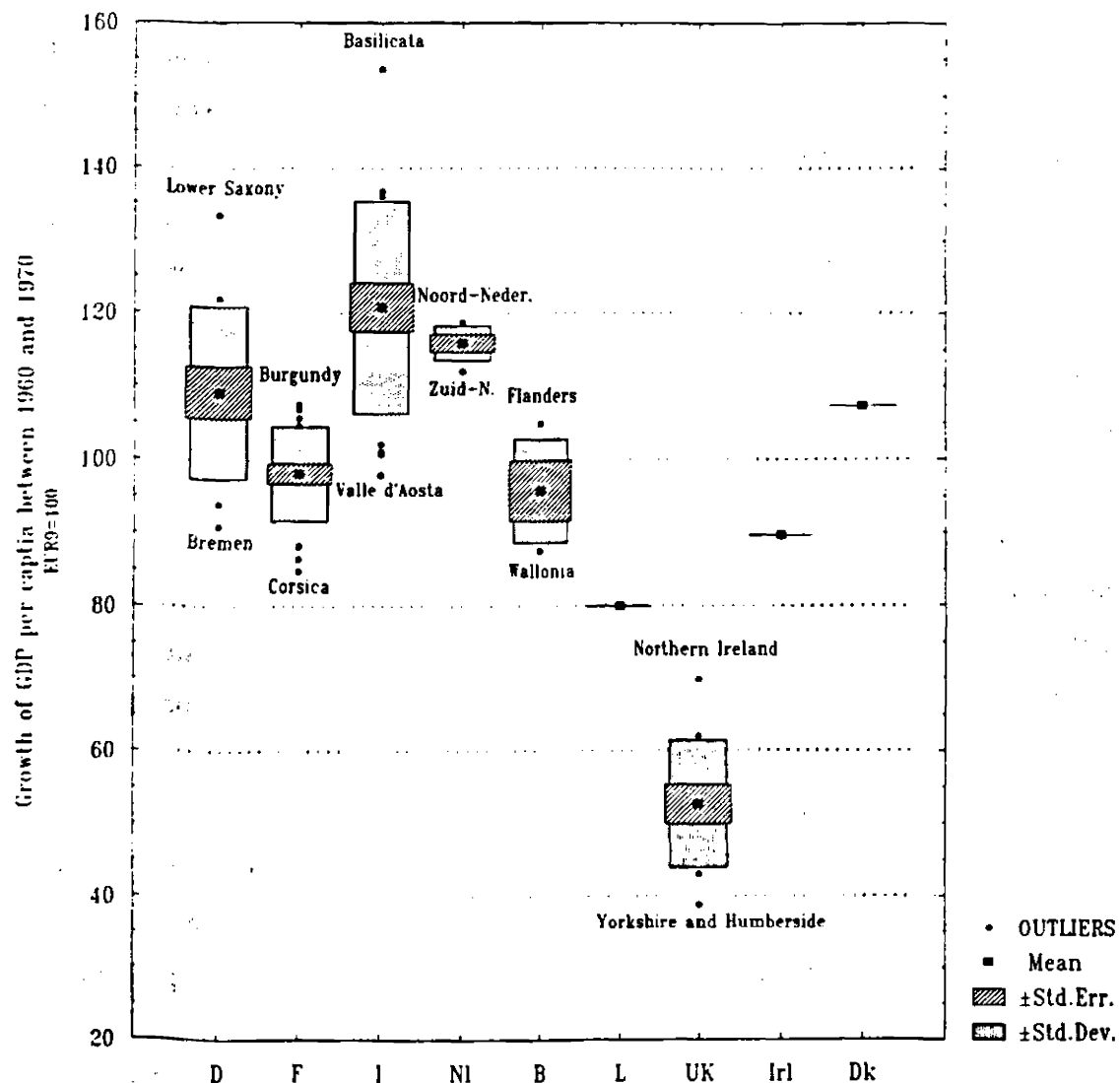


Figure II.1. Regional growth of GDP between 1960 and 1970.

The comparison of regional growth rates in the 1960s and in the 1980s, however, provide little evidence to support the hypothesis of the dwindling importance of national frontiers. Figure II.1² shows regional growth rates -assembled according to country of origin- at the zenith of the Fordist mode of mass production: the 1960s. As could be expected, significant national disparities in regional growth rates are observed. Several nations -such as Italy, and the Netherlands on the top end of the scale, and the United Kingdom and Luxembourg in the lower end- diverge clearly in their growth patterns from the European average. Furthermore, regions within a nation cluster together. Small regional disparities can be observed in internal growth patterns in most of the EC countries, but for Germany and Italy. Internal divergence is especially reduced in France and the Netherlands. The case of France represents the paradigm of the influence of the national dimension on economic growth, since disparities in growth rates among the twenty-two French regions are extremely low.

The graph depicts, as expected, a nationally dominated panorama in the 1960s. National macroeconomic policies and trade barriers -established in order to protect national industries- still had a vast influence on growth rates. Therefore, we can posit that regional growth in the 1960s was heavily influenced and constrained by national economic policies.

The figure representing regional growth rates in the EC in the 1980s displays a comparable tableau to the one depicted for the sixties (Figure II.2), in spite of the much heralded drive towards regional protagonism. Instead of finding greater international homogeneity, growth rates in the 1980s seem to follow fairly similar national patterns to the ones observed two decades before. Internal disparities in growth are only more significant

² The graph represents the categorized box plots of the mean annual growth of GDP for each of the 9 first members of the EU. Each of the box plots is an analysis of the internal variation in regional growth rates and provides information about the national average, the standard error, the standard deviation and the regional outliers in terms of growth rates.

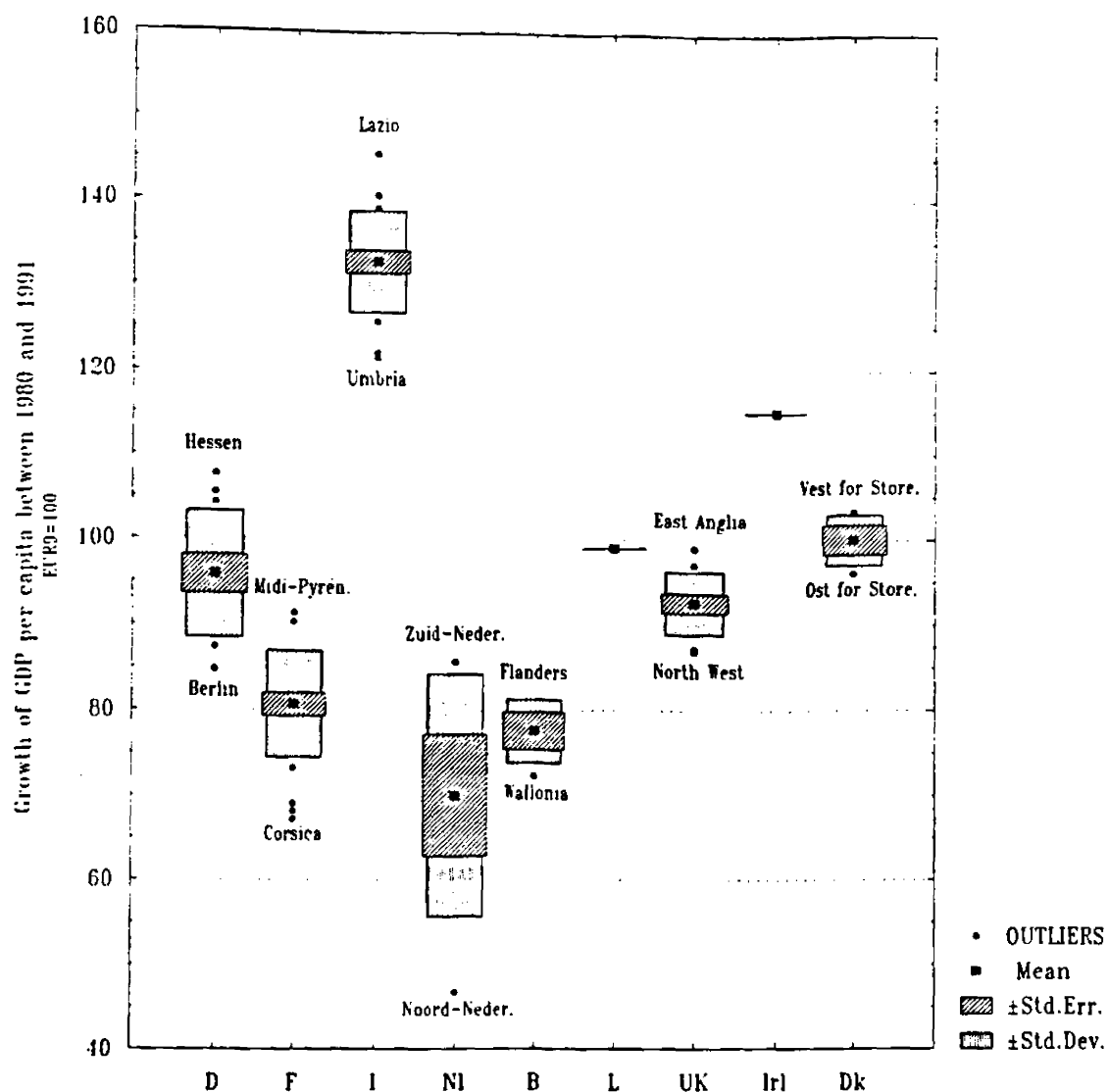


Figure II.2. Regional growth of GDP between 1980 and 1991.

in France and the Netherlands³ during the 1980s than during the 1960s. Nevertheless, this type of behaviour tends to be the exception and not the rule: internal divergence in regional

³ Although in the Netherlands abnormally low growth rates in the region of the Northern Netherlands are provoked by changes in national accounts concerning the spatial allocation of benefits from North Sea oil and gas pits, which were in 1980 concentrated in that region, before it was decided to distribute them on a national basis.

growth is slightly less noticeable in Germany, Italy, and the United Kingdom in the 1980s than in the 1960s.

Furthermore, there is little homogenization of national growth rates. If in the 1960s there were six nations which fluctuated around the European average (Belgium, Denmark, France, Germany, Ireland, and the Netherlands), their number in the 1980s is reduced to four (Denmark, Germany, Luxembourg, and the United Kingdom). Regions in Belgium, France and the Netherlands experience considerably lower growth rates than their Community counterparts, while regions in Italy and in Ireland -as well as in Portugal and in Spain, not included in this part of the analysis- have growth rates which are clearly above the Community average.

Consequently, it can be suggested that, despite greater economic and political integration and a slight reduction of the importance of the national context in determining regional growth rates, the national dimension still accounts for a significant share of all sub-national economic growth behaviour. In the 1980s, the variance of regional growth rates within a national context is much lower than when cross-national settings are compared, and, therefore, the pace towards a regional economic homogenization of growth rates is slower than what might have been expected. As is shown in Figure II.3⁴, which compares regional GDP per capita in 1960 and 1991, in only one country of the EC -Belgium- do regional economies diverge; a performance which could be, to a certain extent, associated with a lower influence of national economic achievement on regional growth rates. On the contrary, in France, Germany, Italy, the Netherlands and the United Kingdom, regions find enormous difficulties in escaping the corset of the national economic context. Regions in France and the United Kingdom fare worse in 1989 than in 1960, but the downward movement has

⁴ The graph includes the multiple scatterplots of the regional distribution in 1960 and 1991 of GDP per head in each of the nine first member-states of the EU. Standardized regional levels of GDP in 1960 are represented by a dot on the left column of each country box. Regional levels of GDP in 1991 are illustrated by a triangle on the right hand side of the box. The aim of the Figure is to determine whether recent transformations have lead to greater intra-regional disparities in levels of GDP in 1991 than in 1960.

affected the whole country and not just a certain group of regions. The same argument can be applied to Germany and Italy, where no significant differentiation in the range of internal disparities is observed.

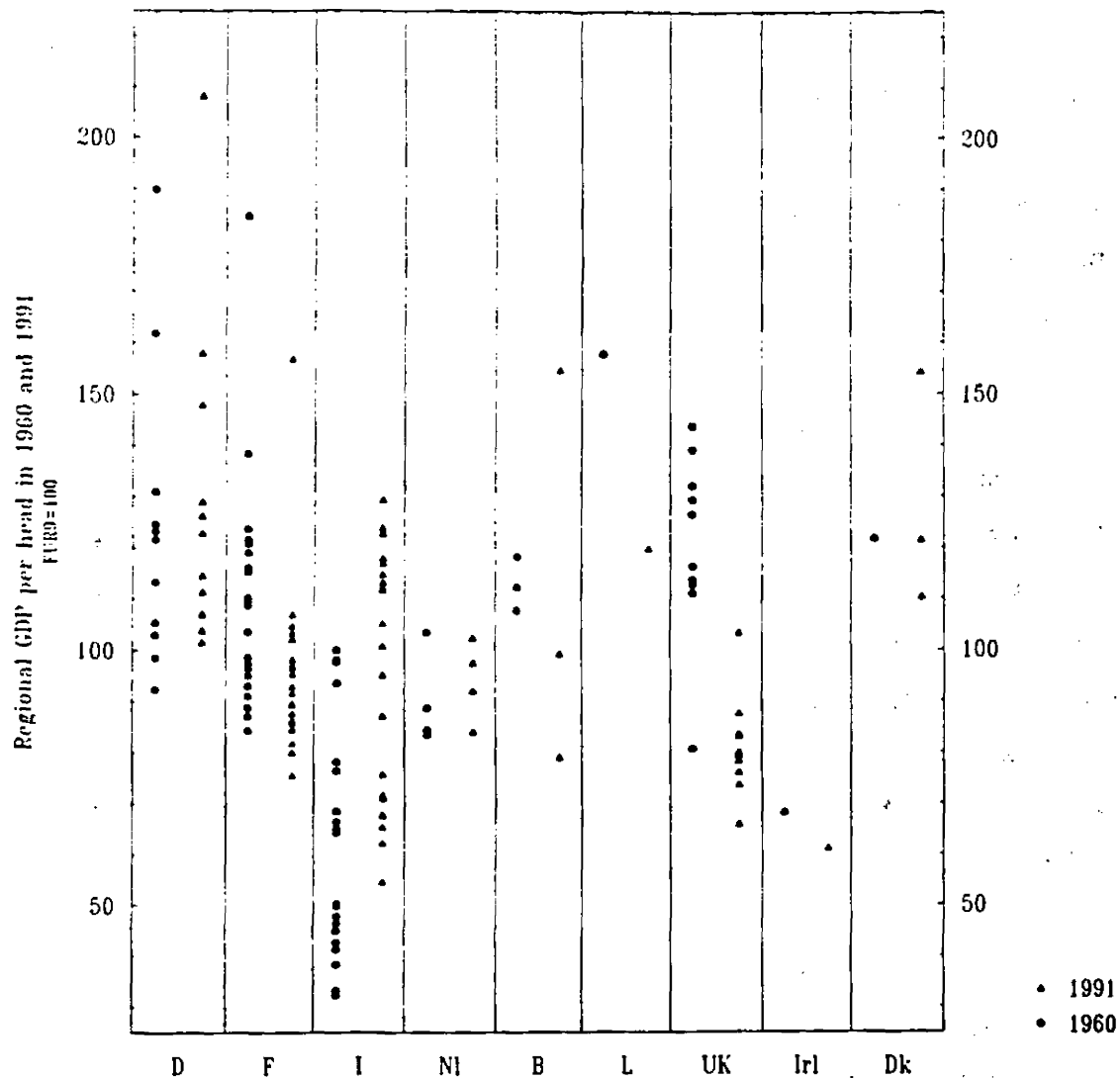


Figure II.3. Regional GDP per head in 1960 and 1991.

The fact that the nation-state still makes up a solid unit of analysis for the study of socio-economic restructuring, casts certain doubts on the claim that we are witnessing the

emergence of a new territorial pattern of growth, and reinforces the statement that the national framework -in spite of the clear tendency to the globalizing of the world economy- still accounts for a great deal of the spatial patterning of growth rates.

In the light of the empirical evidence, however, it cannot be declared that the importance of national dimension has remained unchanged since the 1960s. A slight reduction in the influence of national borders is observed between the 1960s and the 1980s. In sum, we are witnessing a slow drift towards overcoming the influence of national borders in determining growth rates. However, this process is happening at a much slower rate than predicted by a large amount of the literature on socio-economic restructuring.

The most salient issue arising from this discussion is that ignoring either the national or the regional dimension may strongly distort any conclusions emerging from the analysis of growth trends. Any analysis of regional growth rates in a cross-national setting which disregards the effect of the national dimension might be severely handicapped. The growth rate used as the dependent variable in this dissertation, therefore, will take account of distortions created by the national dimension.

II.1.2.- REGIONS AND REGIONALIZATION IN THE EU: THE CHOICE OF THE UNIT OF ANALYSIS.

Once the choice of the region as the unit of analysis is justified, the next step consists of establishing which of the existing administrative regional levels in the EC should be used as the frame for the present analysis. The EC has established the NUTS (Nomenclature of Statistical Territorial Units) administrative and statistical regional division. This categorization is divided into three levels. Before the recent expansion of the EU, level NUTS I included 71 regions; level II, 176 and level III, 829. However, none of the three regional subdivisions established by the EC can be considered as homogeneous from a cross-national point of view. There are significant differences, in terms of territorial extension,

population and, above all, political power among the regions included in each of the categories. Regional NUTS levels, therefore, are hardly comparable outside the national frame.

In level I, for instance, we discover that the contrast in extension among regions stretches from the 215,000 Km² of the region of Central Spain, to the 161 Km² of Brussels. Similar disparities can be observed in terms of population, since regions range from more than 17 million in the South West of England and North Rhine-Westphalia to less than 300,000 in Madeira and the Azores.

However, it is with regard to the political dimension where comparability problems among European regions reach their peak.

II.1.2.1.- Regionalization in the European Community.

In contrast with the tangibility and historical endurance of the state -and despite some specific exceptions-, regions lack the tradition and the global recognition given to nation-states. As a consequence, literature on the concept of region is legion and there is little agreement on what should be considered as a homogenous region. The different nature of regional systems across states and nations, therefore, makes comparing regions cross-nationally a difficult task.

From Austrian, Belgian or German federalism to British, Dutch or Greek centralism, different forms of territorial organization of EC member states are adopted. Historical, political and economic factors play a role in this organization. However, this role varies enormously from country to country, and even within a nation.

This is not the place to delve into the complex subject of the regionalization process and levels in the EU. The purpose of this section is more humble. It consists in briefly

delineating the different levels of national territorial organization in the European Community, in order to determine to what extent differences in levels of autonomy among regions can affect the study of growth behaviours and the formation and analysis of spatial disparities.

As it was mentioned before, in Western Europe there is no common denominator for territorial division. Different European nations have solved in completely different ways the problem of how to divide up and rule the state. The answer to this challenge has led to the establishment of scarcely homogeneous political and administrative regimes, which could be grouped into four different sets:

a) Federal states: Regions or states within the nation enjoy a large political autonomy which, according to the Constitution, bans the intervention of the national or federal government in certain sectors which are the exclusive competence of regional bodies. In this group, we find three states of the EC (Germany, Belgium and now Austria).

b) Regional states: Regional states encompass those states which are in between the traditional centrally articulated modern state and the federal state. In the framework of a regional state, regions enjoy a certain autonomy, which entails a clear decentralization in the decision-making process, but, in contrast to the federal state, does not imply a strong restructuring of the state. Spain and Italy belong to this group.

c) 'Regionalized state': The 'regionalized state' is a less developed form of decentralization. This group is made of those national states which have defined (or are in the process of defining) a set of regions. These new regions are granted a limited decision making power and a meagre budget. Within this group, we find France and Portugal.

d) Central states: Central states are characterized by a non-existent (or almost non-existent) transfer of power from the centre to the regions. Regions act as mere

administrative detachments of the state, with neither political significance, nor decision-making power, which is an exclusive competence of the central government. Central states are still the most common territorial organization in the EC; Denmark, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom, as well as Finland and Sweden can be included in this group.

Nevertheless, within each territorial regime, there is still a sharp contrast among nations. German federalism, for instance, has little in common with the Belgian experience; the competences and organizational structure of Spanish regions differ, in spite of certain similarities in origin, from the Italian territorial organization; regionalizing processes in France and Portugal share only a few common features and, finally, British centralism has little resemblance to that of Greece or the Netherlands.

Together with the political power awarded to the regions, the regionalizing criteria differ from one country to another. While in most states the idea of the region as a community, or of the region as a nation has prevailed, in other states cultural or historical reasons have given way to economic reality, leading toward the constitution of what could be called economic or planning regions (as is the case in the United Kingdom). The former are based on historical, cultural and geographical criteria -in brief, on the existence of a *regional identity*-, while in the latter economic and functional principles dominate.

By combining both elements -political autonomy with regional identity- we obtain a very heterogeneous final result. Within the EC we find regions with long historical and cultural traditions, with a strong regional identity and with a high degree of political and financial autonomy (e.g. Bavaria, Hamburg, Catalonia, Galicia, the Basque Country or Sicily) and regions with no or very little regional identity and political power (e.g. the South West and South East of England, the North of the Netherlands, Central Greece, the West of the Great Belt region, etc.). Between both extremes, there are meaningful nuances. Some areas, such as Wales, Scotland, Brittany or Alsace find a strong cohesion in the presence of

a strong regional or national identity, whereas other regions with little internal cohesion or identity enjoy high levels of political autonomy (e.g. Madrid, Castile-La Mancha, Rhineland-Palatinate or Baden-Württemberg).

II.1.2.2.- The choice of regional level.

Taking into account the differences in regional autonomy and in regional identity mentioned above, the regional division used in this dissertation has not been chosen according to any of the three N.U.T.S. levels used by the European Community. The significant differences in terms of size, population and political power among the regions included in each of the three categories made it advisable to apply another regional division to our study. The classification used in the analysis responds mainly to the existence of comparable levels of self-government in countries with a certain degree of administrative decentralization (Germany, Belgium, Spain, Italy, France and Portugal) and to comparable dimensions in territory or population for the remaining nations (Denmark, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom). The final regional level selected corresponds to the following national administrative levels: *Régions* (B), *Länder* (D), *Comunidades autónomas* (E), *Régions* (F), *Regioni* (I), *Landsleden* (NL), *Regioes autonomas* (P), Standard regions (UK), the whole nation in the cases of Ireland and Luxembourg and, finally, two sub-national divisions currently used by the European Community which do not correspond to any real administrative entity (and, thus, established only for EC purposes) : *Grupper af Amter* (Dk) and Groups of development regions (Gr) (Map II.1) (Table II.1).

REGIONS IN WESTERN EUROPE

Map II.1

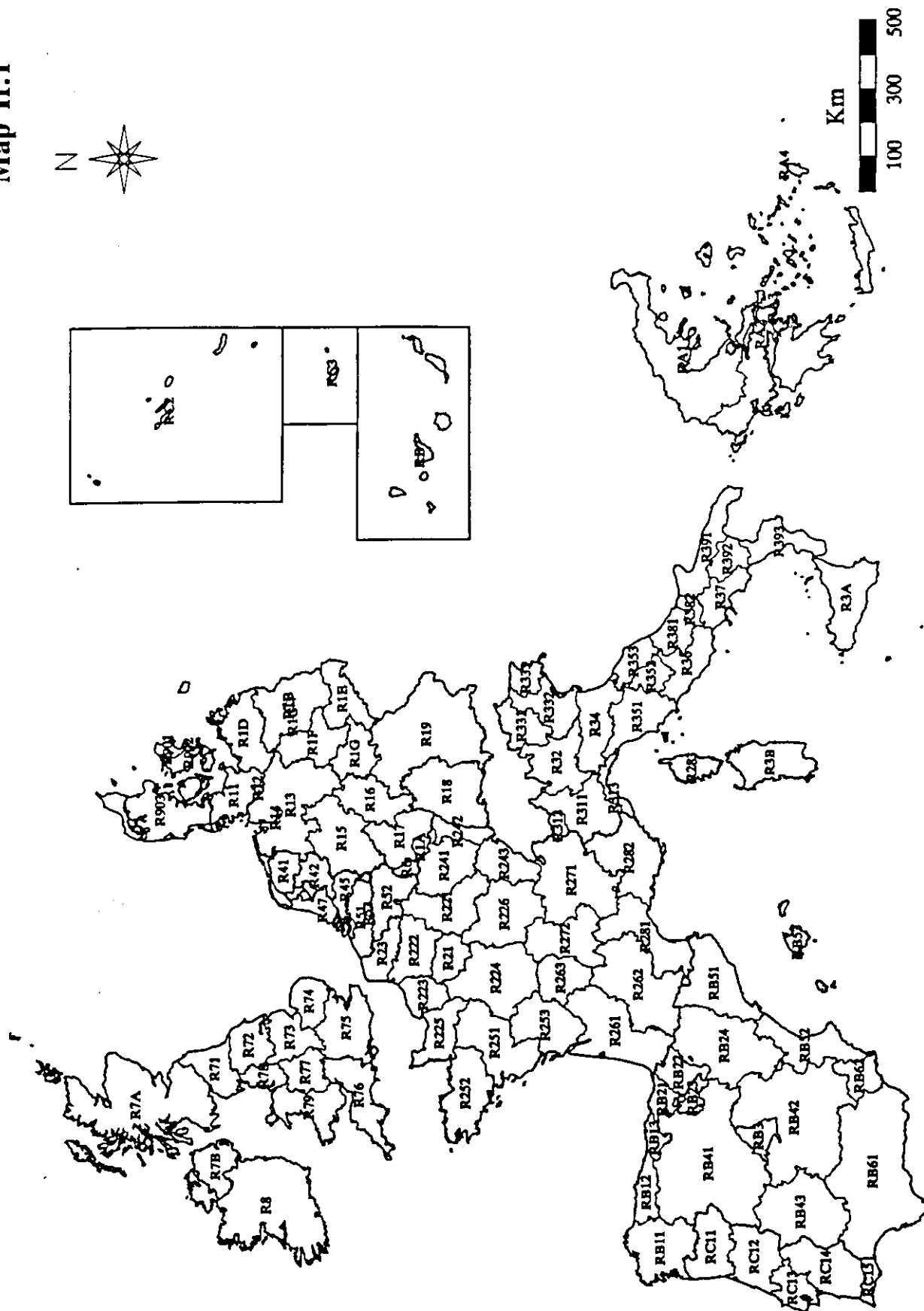


Table II.1

NAMES OF REGIONS USED IN THE ANALYSIS

REGION	NUTS	REGION	NUTS
LUXEMBOURG (GRAND-DUCHY)	R6	PUGLIA	R391
IRELAND	R8	BASILICATA	R392
SCHLESWIG-HOLSTEIN	R11	CALABRIA	R393
HAMBURG	R12	SICILY	R3A
LOWER SAXONY	R13	SARDINIA	R3B
BREMEN	R14	NORTHERN NETHERLANDS	R41
NORTH RHINE-WESTPHALIA	R15	EASTERN NETHERLANDS	R42
HESSE	R16	SOUTHERN NETHERLANDS	R45
RHINELAND-PALATINATE	R17	WESTERN NETHERLANDS	R47
BADEN-WURTTENBERG	R18	FLANDERS	R51
BAVARIA	R19	WALLONIA	R52
SAARLAND	R1A	BRUSSELS	R53
BERLIN	R1B	NORTH	R71
BRANDENBURG	R1C	YORKSHIRE AND HUMBERSIDE	R72
MECKLENBURG-WESTERN POMERANIA	R1D	EAST MIDLANDS	R73
SAXONY	R1E	EAST ANGLIA	R74
SAXONY-ANHALT	R1F	SOUTH EAST (UK)	R75
THURINGIA	R1G	SOUTH WEST (UK)	R76
ILE DE FRANCE	R21	WEST MIDLANDS	R77
CHAMPAGNE-ARDENNE	R221	NORTH WEST (UK)	R78
PICARDY	R222	WALES	R79
UPPER NORMANDY	R223	SCOTLAND	R7A
CENTRE	R224	NORTHERN IRELAND	R7B
LOWER NORMANDY	R225	HOVEDSTADSREGIONEN	R901
BURGUNDY	R226	EAST OF THE GREAT BELT	R902
NORD-PAS DE CALAIS	R23	WEST OF THE GREAT BELT	R903
LORRAINE	R241	NORTHERN GREECE	RA1
ALSACE	R242	CENTRAL GREECE	RA2
FRANCHE-COMTÉ	R243	ATTICA	RA3
PAYS DE LA LOIRE	R251	AEGEAN ISLANDS, CRETE	RA4
BRITTANY	R252	GALICIA	RB11
POITOU-CHARENTES	R253	ASTURIAS	RB12
AQUITAINE	R261	CANTABRIA	RB13
MIDI-PYRÉNÉES	R262	BASQUE COUNTRY	RB21
LIMOUSIN	R263	NAVARRÉ	RB22
RHONE-ALPES	R271	RIOJA	RB23
AUVERGNE	R272	ARAGON	RB24
LANGUEDOC-ROUSSILLON	R281	MADRID	RB3
PROVENCE-ALPES-COTE D'AZUR	R282	CASTILE AND LEON	RB41
CORSICA	R283	CASTILE-LA MANCHA	RB42
DEPARTEMENTS D'OUTRE MER	R29	EXTREMADURA	RB43
PIEDMONT	R311	CATALONIA	RB51
VALLE D'AOSTA	R312	VALENCIA	RB52
LIGURIA	R313	BALEARIC ISLANDS	RB53
LOMBARDY	R32	ANDALUSIA	RB61
TRENTINO-ALTO ADIGE	R331	MURCIA	RB62
VENETO	R332	CEUTA AND MELILLA	RB63
FRIULI-VENEZIA GIULIA	R333	CANARY ISLANDS	RB7
EMILIA-ROMAGNA	R34	NORTH OF PORTUGAL	RC11
TUSCANY	R351	CENTRAL PORTUGAL	RC12
UMBRIA	R352	LISBON AND THE TAGUS VALLEY	RC13
MARCHE	R353	ALENTEJO	RC14
LAZIO	R36	ALGARVE	RC15
CAMPANIA	R37	AZORES	RC2
ABRUZZI	R381	MADEIRA	RC3

II.2.- THE CHOICE OF DEPENDENT VARIABLE.

The choice of the category of growth to be considered as the dependent variable is related to the question of the influence of the national dimension on regional growth rates. Now that it has been settled that regional growth rates are closely linked to national growth behaviours, what type of growth should we examine: monetary or real growth, growth measured in ECUs, or in purchasing power standards?. In the first steps of the analysis (*vid.* Chapter 1), I measured annual rates of growth using GDP per capita measured in ECUs with no national dummy. The initial analysis of the data showed, however, a strong national influence on regional growth trends. Figure II.4 represents the results of the scatter plot between regional growth rates measured in ECUs for the period 1980-1991 (on the y axis), and the regional distribution of GDP per capita in 1980 (on the x axis). The graph suggests the existence of a strong dependency of regional growth rates on the national context⁵, a fact that was already evident in the analysis of regional growth rates in the 1980s conducted in the previous chapter (*vid.* Map I.4). There is a distinct and well-delimited national growth pattern for regions in peripheral, as well as in core countries of the EC. Regions belonging to the same nation occupy different areas in the scatter plot. Portuguese regions, which had the lowest levels of GDP per capita in 1980s enjoy levels of growth above the European average. Similar growth rates are observed in the cases of Italy and Spain, although their start-off levels of GDP were higher than in Portugal. Greek regions cluster together in the bottom left hand corner, indicating low levels of initial GDP per capita and low rates of growth. Even in the European core, where growth levels tend to be more homogenous, explicit national groupings are perceived. British regions, grow on average at a higher pace than French, Dutch, and Belgian regions. And, in spite the fact that growth rates in Denmark

⁵ The linear fitted function between the initial level of regional GDP per capita (represented in the x axis) and the mean annual average growth of GDP (represented in the y axis) is equal to:

$$y = 138.68 - 0.36x + \epsilon \quad (1)$$

(25.5) (-6.69)

* t-statistics in parentheses.

and Germany are fairly similar to those in the United Kingdom, the diverse starting points in GDP per capita between both groups mark the configuration of well-defined national sets in the figure.

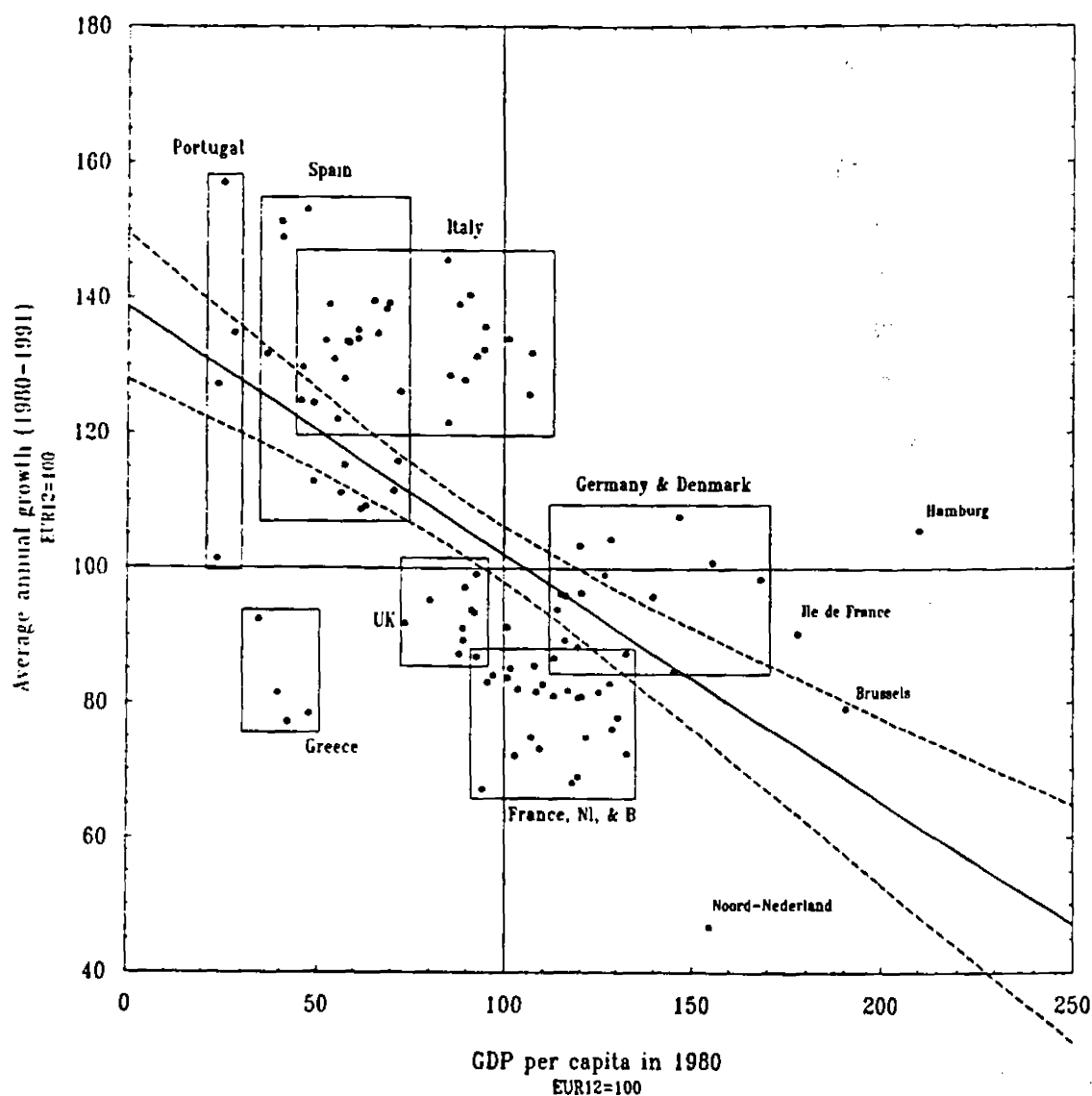


Figure II.4. Average annual regional growth rates (1980-1991) vs. GDP per capita in 1980.

Furthermore, the results of preliminary regressions conducted with this dependent variable confirmed the strong dominance of the state effect, in contrast to what in the literature on post-Fordism tends to be considered as a fundamentally regional phenomenon.

Regional data in these regressions were purposely introduced in national order, so that scores in the Durbin-Watson test could be considered significant. Durbin-Watson results were extremely low in all models⁶. These types of autocorrelated errors constitute a typical example of spatial autocorrelation, through which "in regional cross-section data, a random shock affecting economic activity in one region may cause economic activity in an adjacent region to change because of close economic ties between the regions" (Kennedy, 1985, p. 98-99). The pattern of residuals confirms that values for regions tend to follow clear national patterns.

Figure II.4 also suggests a decreasing gap in regional inequalities during the 1980s. Regions in peripheral countries (except Greece), regardless of their initial level of development in the EC, experience much higher growth rates than regions in core countries such as Belgium, the Netherlands, Germany, or France. This evidence apparently comes to support claims made by the European Commission of a certain effectiveness of regional policy (CEC, 1991 and 1994).

However, this decreasing gap is not evident when development levels within nations are scrutinized. Both in Italy and Spain it was mainly the richest regions that grew the most quickly. In the case of Italy, the highest levels of growth between 1980 and 1991 are found in the Lazio (145.57)⁷, Friuli-Venezia Giulia (140.48), and Veneto (139.00), regions which in 1980 had levels of GDP per capita above average. And the lowest growth rates were observed in lagging regions such as Basilicata (122.02), Calabria (129.76), and Sicily (130.93), together with areas of the once prosperous Centre (Umbria (121.46), Emilia-Romagna (125.72), Tuscany (127.85), and Marche (128.48)). In Spain -with the exception of the highly tourism oriented Canary Islands (153.03)- high growth was mainly concentrated

⁶ In most cases, Durbin-Watson scores were around 1.1. These results indicate the existence of autocorrelated disturbances generated by the introduction of data in a national order, which provokes a high correlation of successive residuals. The introduction of regional data on an alphabetical order (thus avoiding the national effect) made Durbin-Watson scores rise to more than 1.6.

⁷ The average growth rate of the EU between 1980 and 1991 is equal to 100.

in the richest regions, such as Madrid (139.52), the Balearic Islands (139.19), or Catalonia (134.62). A similar model is reproduced in Portugal, where the rich area around Lisbon (151.22) and the industrial North (157.00), enjoy a greater growth momentum than lagging zones in the Centre (127.20) and in Alentejo (101.34).

Although few conclusions can be extracted from the use of crude growth rates, this evidence seems to confirm the strength of the nation in determining regional growth and the persistence of regional imbalances. Growth rates throughout the 1980s and the distribution of GDP per inhabitant still strongly follow national patterns, while the spatial 'flexibilization' described by most of the adherents of post-Fordism is, in most areas, still at its initial stages. This corroborates the previous conclusion that the decline of the importance of the nation in the spatial organization of production systems has probably been exaggerated, and that the national sphere still determines a great deal of the spatial distribution of wealth.

As a consequence, in order to avoid distortions related to the state dimension, growth rates included in the analysis are weighted nationally, according to the following equation:

$$\hat{y}_i = \frac{y_i}{y_n} y_e \quad (2)$$

where:

- \hat{y}_i denotes the nationally weighted mean annual rate of regional growth of GDP per capita measured in ECUs between 1980 and 1991,
- y_i represents the mean annual rate of regional growth of GDP per capita measured in ECUs between 1980 and 1991,
- y_n denotes the mean annual rate of national growth of GDP per capita measured

in ECUs between 1980 and 1991,

- y_e represents the mean annual rate of growth of GDP per capita measured in ECUs in the European Union between 1980 and 1991.

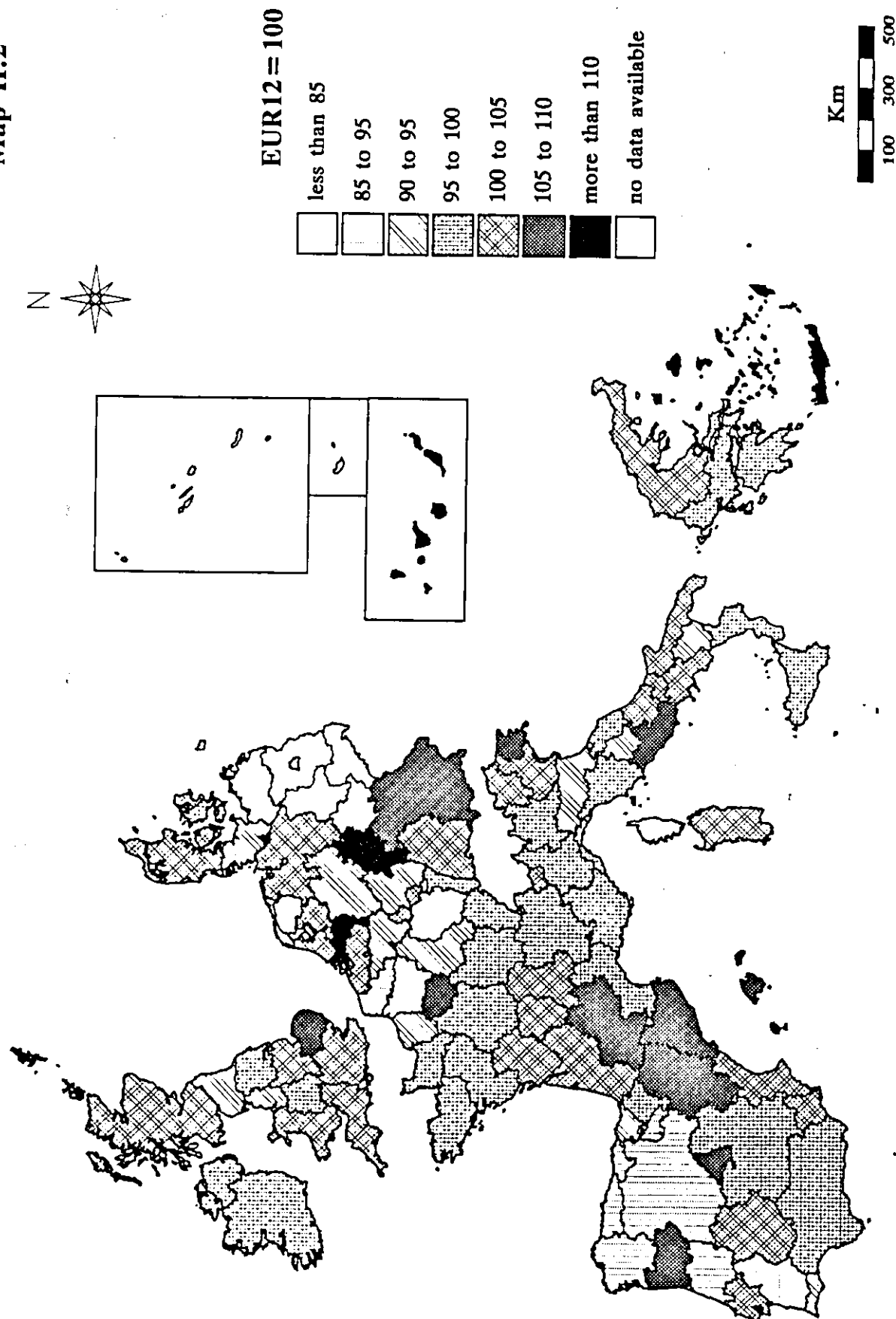
The division of annual regional growth rates by a national coefficient, which represents the relationship between national growth rates and the EC's average growth, enables us to compare cross nationally the variation in regional growth rates in a determined national context. This method has the advantage of being a simple way of contrasting cross-national data, while preserving intranational variation at the same time. It also allows us to avoid misinterpretations provoked by very high growth rates in Italy, Spain, and Portugal, which otherwise would have led to the consideration of the socio-political conditions in those three countries as the panacea for regional growth.

The panorama emerging from nationally weighted regional growth rates (Map II.2) differs radically from the one stemming from unweighted growth rates. Firstly, national borders no longer mark sharp differences in growth behaviours, and even in certain cases growth rates differ less across common borders than in neighbouring areas in a nation. This is the case, for example, of the Franco-Belgian frontier. Nationally weighted growth levels in Wallonia (92.68) are clearly below those observed in Flanders (103.96) and in the Brussels area (101.68), but are closely related to those in the industrial declining regions of Nord-Pas-de-Calais (87.80), Champagne-Ardenne (93.51), and Lorraine (81.74) in Northern France. To the east a similar phenomenon is observed between Belgium and Germany. Growth in regions with a comparable industrial structure like Wallonia, North Rhine-Westphalia (91.12), and Rhineland-Palatinate (92.22) contrasts clearly with that in dynamic neighbouring regions like the Southern Netherlands (118.50), Hesse (112.34), Flanders or Luxembourg. Regions along the boundary between France and Spain also constitute a well-delimited set in terms of growth. High growth rates are experienced on both side of the Pyrenees, in the intermediate dynamic regions of Midi-Pyrénées (109.54), and Aquitaine (103.92) in France,

NATIONALLY WEIGHTED GROWTH OF GDP

1980-1991

Map II.2



and Catalonia (105.58), and Aragón (105.03) in Spain. Cross-national homogeneity in growth can also be detected along the French-Italian border and along the whole Alpine area.

Secondly, the use of nationally weighted growth variables marks a sharp reduction in the international variance of growth rates. Regional growth rates no longer cluster nationally as when raw data was used (Fig. II.4), but tend to assemble cross-national groups of regions sharing similar socio-economic features (Fig. II.5).

II.2.1.- THE FORMATION OF REGIONAL GROUPS ACCORDING TO GROWTH RATES.

Last but not least, the substitution of plain growth rates by nationally weighted ones draws empirical evidence closer to the postulates of the literature on socio-economic restructuring. As mentioned in Chapter I, different currents within the literature on post-Fordism and socio-economic restructuring had stressed the emergence of new growth spaces in certain regions sharing common features. Harvey (1985), Castells (1989), Sassen (1990), Dunford (1992), O'Brien (1992), Hall (1993), and Castells and Hall (1994) among others, put the stress on the greater concentration of growth and wealth in metropolises, 'world cities', or 'Euro-cities'. Piore and Sabel (1984), Scott and Storper (1989 and 1992) and a huge branch of the literature on the flexibilization of the production process, highlight the rise of new growth spaces in former intermediate regions, which take advantage of a certain number of socio-economic factors in order to generate and/or attract investment. Both groups point to old industrial regions as the great losers in the new spatial configuration. These regions had neither the possibilities, nor the capacity to adapt to current changes and thus were left aside in the restructuring process (Quévit *et al.*, 1991; Hudson, 1994). Finally, the role played by former peripheral regions in the new spatial configuration emerging from socio-economic restructuring processes was less defined. Whereas some authors stressed that advances in technology opened up new possibilities for peripheral areas (O'Brien, 1992), others underscored the fact that the greater globalization of the world economy was leaving

peripheral regions in Europe aside from major economic circuits, since they were too peripheral to compete in high quality production with core areas, and too central to rival with Third World countries in low cost mass production processes (Vandermotten *et al.*, 1991).

The basic conditions which define core, old industrial, intermediate, and peripheral areas were already evident at the beginning of the 1980s. Core urban areas were and are characterized by a significant concentration of company headquarters, national and international banks, a powerful financial sector, and considerable levels of political decision making power (Krätke, 1991; Iranzo, Del Río and Molina, 1993, Meijer, 1993; Molina, Iranzo and Estébanez, 1995). This was reflected in 1980 in a dominant service sector which, in all cases, employed more than 65% of the active population and provided more than 65% of the total gross value added.

The main features which distinguished old industrial zones in the 1980s were an over-representation of traditional industries and an under-representation of services to industries (Quévit *et al.*, 1991; Quévit, 1994). Employment in the secondary sector is still at present well over the EU average, despite significant losses in industrial employment in the last two decades, and the average size of enterprises tends to be clearly above the EU average (Quévit *et al.*, 1991). Regions classified as old industrial areas in this analysis are, therefore, those which in 1980 had more than 40% of the total active population employed in industry, and at least 40% of the total industrial employment in the coal, iron, steel, and electrical subsectors.

Peripheral areas can be defined by their distance to the major economic activity centres. They are generally characterized by relatively high levels of population growth in the European context, low incomes and output per head, a historically and distinctive specialization in agriculture, and low levels of industrialization (Keeble, Offord and Walker, 1988). The above average specialization in agriculture was already evident in 1980, and has served -together with distance to the main economic centres- as the fundamental criterion for

the definition of peripheral regions⁸.

Intermediate regions are by definition all those regions which do not belong to any of the above mentioned categories. They are neither specialized in advanced service activities, nor in manufacturing, or agriculture, and they tend to be geographically located between core and old industrial areas, and peripheral areas. However, this type of regions has been regarded by some sections of the literature as areas which encompass the adequate conditions and lack the constraints, that make them -with core areas- the recipients of the benefits of flexible production methods (Storper and Scott, 1989; Krätke, 1991; Scott and Storper, 1992).

These four groups of regions (core areas, old industrial zones, intermediate, and peripheral regions) delimited by the literature on the topic, form fairly homogenous cross-national sets in terms of initial growth levels and growth behaviour⁹. In figure II.5 -which represents the scatter plot between the nationally weighted regional distribution of GDP per capita in 1980 on the x axis and nationally weighted regional growth rates for the period 1980-1991 on the y axis- the removal of the state effect implies that regions bearing analogous characteristics tend to assemble in nearby areas of the graph. Figure II.5 has been divided into four sectors, taking the EC average on both axes as the dividing line. Clockwise, sectors A and B depict regions with lower than average initial GDP per capita which grew - in the case of A- at a lower pace, and -in the case of B- at a higher pace than the European average. Sectors C and D represent regions with high initial GDP per capita. Regions in sector C grow higher than the EC average, whereas regions in sector D experience below

⁸ Regions defined as peripheral in this analysis tended to have levels of employment in agriculture in 1980 which exceeded 15% in 1980.

⁹ There is relatively little internal variation in growth performance in core and old industrial areas. Growth behaviours differ more in intermediate and peripheral regions, both because of the large number, and because of the greater heterogeneity of regions included in each group. Therefore, and in order to cope with greater divergence in growth levels, intermediate and peripheral regions have been labelled as dynamic and less dynamic, according to their growth performance.

average growth rates.

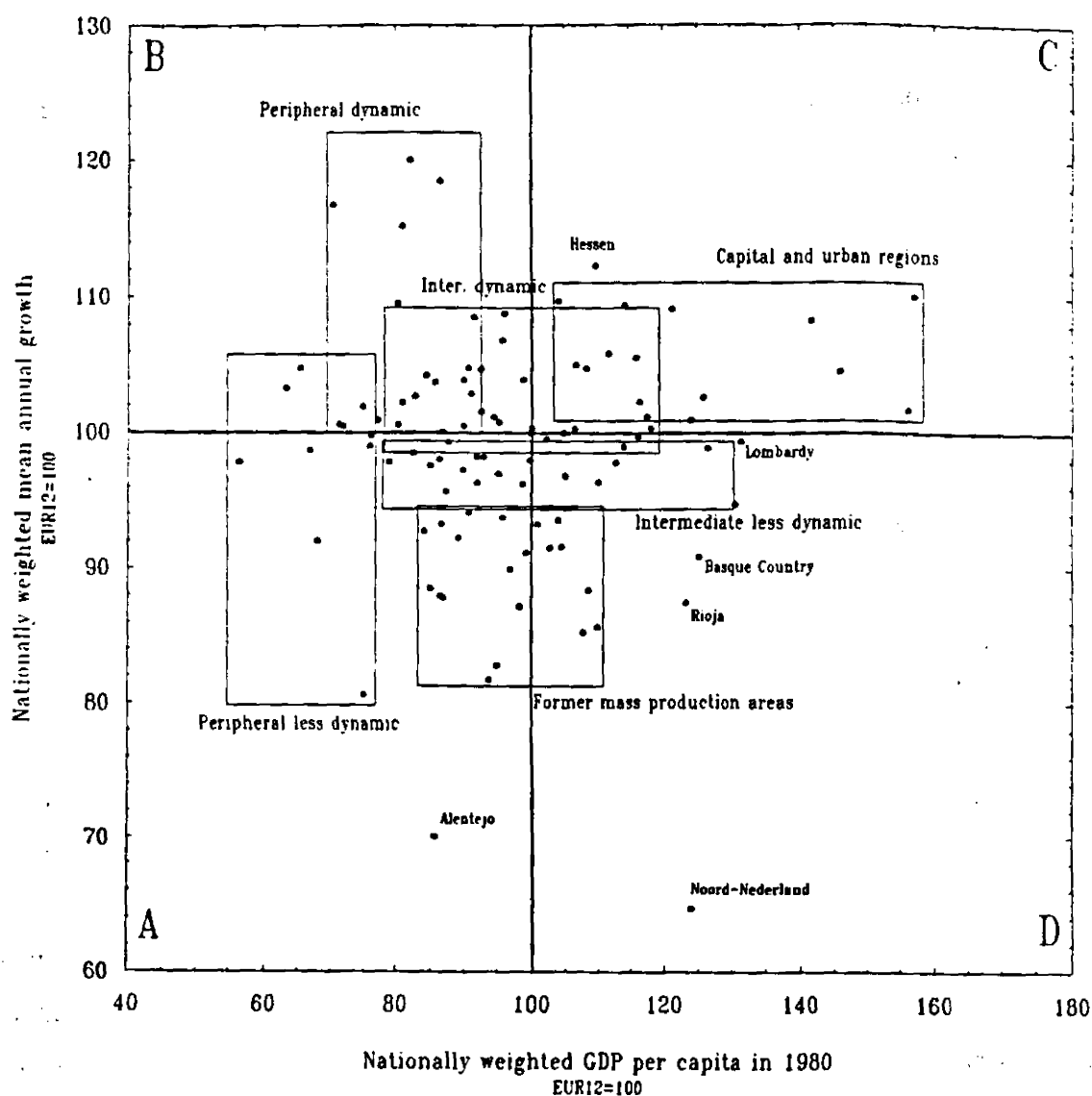


Figure II.5. Regional typology emerging from the analysis of nationally weighted growth rates (1980-1991) vs. nationally weighted GDP per capita in 1980.

In sector A we find regions undergoing a clear decline in their relative economic position. Regions included in this sector belong fundamentally to two groups. The best defined group is the one made up by former mass production areas, which tend to cluster on right hand side of sector A in growth levels between 80 and 95% of the European average,

and that in certain cases (Asturias, the Basque Country, Upper Normandy, Champagne-Ardenne), overlap into sector D. These are regions which have been suffering a serious decline since the late 1960s and even before in the cases of industrial regions in Great Britain (North, North West, Yorkshire and Humberside, and Wales) and the North-Pas de Calais in France, or Wallonia in Belgium, where the crisis was already evident by the beginning of the 1960s and late 1950s. As a result of this structural crisis, in 1980 most former mass production regions -the havens of the industrial revolution- had levels of GDP per capita slightly below the national average, with the exception of Italy and Spain, where industrial regions were still among the wealthiest in the nation, mainly because of the backwardness of peripheral areas in these countries. The 1980s have confirmed the declining growth trend of former industrial regions, which have been unable to respond rapidly to structural changes and cope with new demands.

Peripheral regions are not as homogenous in their growth behaviours as former mass production regions. They share the same low initial levels of GDP per capita, but the scope of their growth levels is much wider than in old industrial areas. However, a certain group of peripheral regions stand out for their relatively low levels of growth during the 1980s: these are the peripheral non dynamic regions, which occupy the left hand side of sector A, slightly overlapping the set of former mass production regions. In that group we find the Alentejo, and the Centre of Portugal, Galicia, Andalusia, and Castile-La Mancha in Spain and Basilicata, Calabria and Sicily in Italy. Some regions which could be considered as peripheral non dynamic perform slightly better than average during the 1980s and are included in sector B. This is the case of, for example, Extremadura in Spain, or Campania in Italy.

Sector B includes a set of peripheral regions which exhibited a remarkable economic dynamism during the 1980s. In this group we find the tourist resorts of the Canary and the Greek Islands, which experienced the highest growth rates, as well as the North of Portugal, Murcia in Spain, and Abruzzi and Molise in Italy.

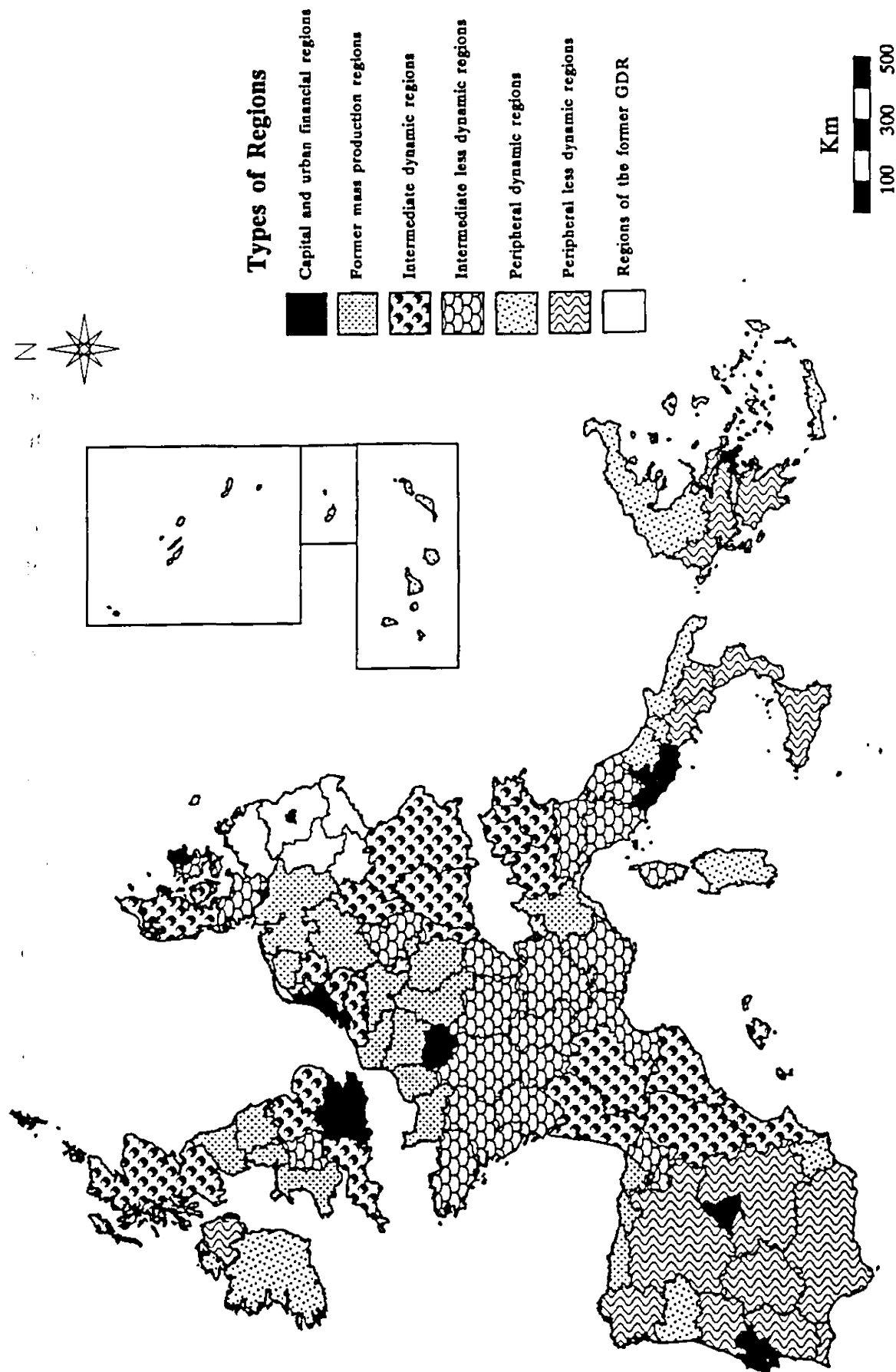
Capital and large urban regions are gathered in sector C. Brussels, Hamburg, the Île de France, Lazio, Lisbon and the Tagus Valley, Madrid, and the South East of England, all make up regions which link a good start-off relative position in terms of GDP per capita with growth rates that are only second to those found in certain peripheral dynamic areas, or in isolated cases, like the Southern Netherlands.

There is not a single group of regions which could be identified with sector D alone. On the one hand, the set of former mass production regions identified in sector A overlaps with sector D, whereas the areas closest to the lines representing the European average are populated by intermediate regions with relatively unsuccessful growth trajectories during the 1980s. It is precisely a large set of intermediate regions which occupies the centre of the Figure. This group includes those regions which in 1980 had levels of GDP per capita between 80 and 120, and whose average growth levels fluctuate within the limits of ± 10 percent with respect to the European average growth. However, the diversity in growth rates among regions belonging to these groups allows us to define -as in the case of peripheral areas- two subgroups within intermediate regions. On the one hand, intermediate regions with growth levels above the EC average make up the set of intermediate regions which has been able to better take advantage of the new set of conditions generated by the shift in production methods and socio-economic restructuring. They constitute the intermediate dynamic group. On the other hand, intermediate regions which grew below the European average were unable to adapt to changes as rapidly as intermediate dynamic regions, and compose the intermediate less dynamic group.

In short, although it is still early to determine clearly what type of territorial pattern is emerging from the shift in the model of production and the process of socio-economic restructuring, major spatial trends outlined in the literature and empirical evidence suggest the formation of a complex landscape of regions emerging from recent transformations. As a result, six different groups of regions according to their growth behaviour during the 1980s

REGIONAL TYPOLOGY IN THE EUROPEAN UNION

Map II.3



could be identified¹⁰ (Map II.3):

II.2.1.1.- Capital and large urban regions.

Despite the fact that advances in technology and deregulation trends have rendered capital and information highly mobile, both factors have become increasingly concentrated in large metropolitan areas, especially in those where the existence of a developed financial market is combined with political power.

Capital and large urban regions in the European Community (Attiki, Berlin, Brussels, Copenhagen, Hamburg, Île de France, Lazio, Lisbon and the Tagus Valley, Madrid, the South East of England, and the Western Netherlands) have been favoured by these trends. Economic and political power are now more concentrated than ever in a few blocks found in 'emblematic spaces' in the central areas of large metropolises, a process which has not yet reached its climax (Leborgne and Lipietz, 1992). In these 'decisional centres' financial behaviour and politics go hand in hand, controlling socio-political and economic activities taking place in distant locations. The interlinkage between capital areas and financial centres has also been enhanced: in recent years we have witnessed the consolidation of a global network of decision centres. Furthermore, capital and large urban regions have benefited

¹⁰ The definition of six different groups of regions according to general trends in the literature and empirical evidence is not undisputed. Why is Scotland an intermediate region and not a peripheral one? Why is Champagne-Ardenne classified under the label of former mass-production area and not as an intermediate region? Why are Emilia-Romagna and Rhône-Alpes considered as intermediate less dynamic and not as dynamic regions, when both had been regarded for a long time as motors in the socioeconomic transformations in Europe? These and many other questions concerning the ascription of individual regions to groups will assail the careful reader. Classifying the 111 regions included in the analysis cannot be done without controversy, but in order to reduce it to a minimum, certain criteria have been followed. First of all, it has been considered whether different authors have included a certain region into a given regional category. Secondly, growth rates have been taken into account in order to distinguish between dynamic and less dynamic regions. For the distinction between intermediate and peripheral areas, priority has been granted to the European context rather than to the national one. And finally, in certain indeterminate cases, factors such as the start-off levels of sectoral employment and of sectoral share in GDP, as well as their evolution, have been taken into consideration.

from industrial decentralization; polluting and obsolete industries have been moved from core areas and substituted by technologically advanced production complexes.

From a social perspective, capital and urban regions have enjoyed the greatest social dynamism. The stock of qualified labour available, the existence of top-level universities and the relative absence of social conflict, has eased the assimilation of innovation and technological advances and fostered economic growth.

II.2.1.2.- Former core regions undergoing industrial decline.

The second group of regions are the former havens of the Fordist mode of mass production. The North and the North West of England, Yorkshire and Humberside, and Wales in Great Britain, the Saar Region, North Rhine-Westphalia, Lower Saxony, and Bremen in Germany; Wallonia in Belgium; Nord-Pas de Calais, Picardy, Champagne-Ardenne, Lorraine, Upper and Lower Normandy in France; Asturias, Cantabria, and the Basque Country in Spain; Liguria, and Piedmont in Italy; and the Northern Netherlands have endured, to a greater or lesser extent, serious industrial and economic crises in the last two decades. In these areas, it is frequently considered that the rigid economic and social structure erected during the era of mass production has become a handicap in adapting to the changing socio-economic conditions (Scott and Storper, 1992). The shift from mass production to more flexible methods has rendered the large Fordist industrial sites obsolete and unable to compete in a wider and more open market. As a consequence, these regions have had to face profound processes of industrial reconstruction that, with the exception of a few cases, have been unable to curb the trend of economic decline (Quévit *et al.*, 1991).

Together with economic havoc, socio-economic restructuring has brought social discontent to the former centres of mass production. On the one hand, a significant percentage of the large mass of skilled and unskilled blue collar workers which had dominated during Fordism, has experienced difficulties in adjusting to changes. On the other

hand, younger and better prepared generations could not find an outlet in the labour market. Low social mobility and the limited share of economic activity of certain social sectors - especially females- had, together with a very rigid labour structure, also hampered the economic development of these areas.

II.2.1.3.- Intermediate dynamic regions.

Intermediate dynamic regions are, with capital regions and urban financial centres, the chief beneficiaries of socio-economic restructuring. The flexibilization and the decentralising of the production process, as well as advances in technology and improved accessibility, have rendered these zones more accessible and capable of taking advantage of spread effects emanating from economic centres. A large proportion of enterprises fleeing congestion, negative externalities and high land prices in capital areas, and companies affected by important reconstruction needs in traditional Fordist zones, have moved from central spaces and settled in intermediate regions (Scott and Storper, 1992). Moreover, many intermediate regions had the financial and human resources, as well as the necessary technological and organisational know-how, to activate their local industrial fabric, creating or redynamizing local small and medium-size enterprises. Regions like Flanders in Belgium, the West of the Great Belt in Denmark, Hesse, Baden-Württemberg, and Bavaria in Germany, Aragón, Catalonia, Valencia, and the Balearic Islands in Spain, Midi-Pyrénées, and Aquitaine in France, Valle d'Aosta, Lombardy, Veneto, Trentino-Alto Adige, and Friuli-Venezia Giulia in Italy, the South and the East of the Netherlands and the East Midlands, East Anglia, the South West of England and Scotland in Great Britain have benefited from the combination of processes like the uprooting of industries in core areas and the upsurge of local entrepreneurship.

Social and economic conditions have also played a meaningful role in the boom of intermediate dynamic regions. Most of these areas lacked the economic and social problems associated with heavy industry and had a balanced, medium-sized industrial network at the

beginning of the process of socio-economic restructuring. In addition, the existence of a much more flexible social cross-section than in traditional Fordist strongholds, and the supply of dynamic and qualified labour by local universities and colleges, helped surmount the problem caused by a lack of social adaptation to transformation. This also encouraged the development of an active local entrepreneurial class, that has played a key role in dynamizing local economies.

II.2.1.4.- Intermediate less dynamic regions.

Not all intermediate regions were capable of seizing the advantages offered by changes in production methods and by socio-economic restructuring. Many intermediate regions were either left aside by new processes, or lacked the adequate economic, social and/or political conditions to attract investment and technology and to recast local enterprises into competitive ones. This has been the case of certain intermediate areas whose relative isolation, defective accessibility to major markets, insufficient industrial network, and below average levels of education have condemned them from the start to continue playing the supporting role they had during the mass production area. Schleswig-Holstein, and Rhineland-Palatinate in Germany; the Centre, Burgundy, Franche-Comté, Brittany, Pays de la Loire, Poitou-Charentes, Limousin, and Auvergne in France; Umbria, and the Marche in Italy; the East of the Great Belt in Denmark; and Navarre, and Rioja in Spain, belong to this category.

However, some of the regions which today can be considered as 'intermediate less dynamic' were among the first to take advantage of the new socio-economic conditions, achieving extremely high relative growth rates during the late 1970s and early 1980s. The Italian regions of Emilia-Romagna, and Tuscany, the southeastern French zones of Rhône-Alpes, Provence-Alpes-Côte d'Azur, and Languedoc-Roussillon, and, to a lesser extent, the West Midlands, were regarded during a substantial time span as the new emerging centres of post-Fordism. The Italian industrial districts in particular attracted considerable attention,

because of the capacity of conglomerates of small and medium-sized firms to generate an innovative supply, in conditions of extreme competition between industries, and in rich institutional and community settings (Porter, 1990). Nevertheless, as Becattini (1990), Brutti and Calistri (1990), and Trigilia (1992a) point out, the present crisis of Italian Industrial Districts is the result of the difficulty of an economy whose dynamism was based on SMEs to cope with the expanding demand for investment, R & D, and highly proficient human resources in order to remain competitive. Another factor which has provoked the decline in economic dynamism of industrial districts, has been the recovery of large enterprises in the North, after a profound process of industrial rationalization. Once the readaptation to new conditions of large enterprises was achieved, SMEs have found greater difficulties in selling their products and in coping with the growth in competition from increasingly integrated markets. Even the paradigmatic example of intermediate dynamic enterprises -Baden-Württemberg- has not been immune to the decline in economic dynamism of regions with a strong network of SMEs, although it still performs better in relative terms than Emilia-Romagna or Rhône-Alpes, thanks to its advanced institutional infrastructure (Cooke and Morgan, 1993) and to the efficacy of its industrial policy in intensifying inter-firm co-operation (Semlinger, 1993).

II.2.1.5.- Peripheral dynamic regions.

Peripheral regions make up the most heterogeneous group in the post-Fordist panorama. The common features shared by them are mainly related to their territorial isolation: little accessibility, relative social and economic backwardness and the fact that a large number of the peripheral regions have remained apart from the process of flexibilization of production.

Within the group of peripheral regions there are, however, significant differences in economic achievement. The subgroup of peripheral dynamic regions is fundamentally made up by regions which either have been capable of offering conditions and skills highly

demanding by the global market, or that have specialized in highly performant sectors, predominantly in the tourist sector. Among the former we find Abruzzi, Molise, Puglia in Italy (*vid.* Trigilia, 1992b), the North of Portugal, the North of Greece, Murcia in Spain, whose industries have supplied the European market with relatively low cost and quality products, and Ireland, which has been successful in attracting foreign capital. The latter is made up of the tourist resorts of the Madeira in Portugal, the Canary Island in Spain, Sardinia in Italy, and the Greek Islands.

Nevertheless, the relative economic prosperity experienced by these areas in the last few years does not imply that it has been achieved without risks. Industrial products manufactured in the North of Portugal, the North of Greece, and agricultural production and transformation in Murcia are under the constant threat of competing products coming from outside the EU. And the tourist sector in numerous peripheral regions of the EU has remained performant throughout the 1980s and especially in the early 1990s, mainly due to the fact that competitors (Yugoslavia, Turkey, Egypt, and the Maghrib Countries) have undergone serious political crises which have thwarted their possibilities.

II.2.1.6.- Peripheral less dynamic regions.

In a majority of European peripheral regions, economic globalization has contributed, however, to the progressive destruction of the production system. Enterprises in these regions are becoming unable to compete with, on one side, high quality production from central areas, on the one hand, and with low cost production from the Third World, on the other. As Vandermotten points out, peripheral areas in Europe are at the same time too peripheral with respect to the innovation core, and too central with respect to the world's periphery (Vandermotten *et al.*, 1991). In the brief lapse of a few years, the economies of Campania, Basilicata, Calabria, and Sicily in Italy, Northern Ireland, Central Greece and the Peloponnese, Galicia, Castile and León, Castile-La Mancha, Extremadura, and Andalusia in Spain, and the Alentejo, Algarve, the Azores and the Centre of Portugal have experienced

an impaired insertion into world economic circuits: there has been a rapid transition from an agricultural to a service economy, skipping the intermediate stage of industrial supremacy. Unemployment rates and employment in the service unskilled sector have soared. In contrast to the disruption of the traditional production fabric without the generation of alternatives, the demand side of the economy has, on the contrary, achieved a full integration into world markets. Global consumption has increased (especially in the case of the Italian Mezzogiorno) (Trigilia, 1992b), despite the fact that personal income is still significantly lower than in core and intermediate regions.

These areas have plummeted into deep economic depression and factors like high employment in agriculture, and the low level of education of human capital has curbed the possibility of economic growth (De Long, 1991; Rodríguez-Pose, 1994).

II.2.2.- ECONOMIC GROWTH AND THE SHIFTING TERRITORIAL PATTERN.

Regional economic growth patterns during the 1980s in the European Community confirm to a great extent the theoretical and empirically based territorial division outlined above (*vid. supra* Map II.3).

Capital and urban regions, with the exception of Berlin and Athens have achieved growth rates above the European average during the 1980s (Table II.2). Rates of growth were especially high in Hamburg -where the fifth highest rate of relative growth was achieved-, Lazio, Madrid, and the Île de France. In these areas, industrial restructuring has been complemented by the development of a powerful decision-making service sector, thus favouring economic growth. It is highly meaningful to remark that the only exceptions to the rule of high growth in capital and urban areas are -with the exception of Lisbon- precisely those with medium-size financial markets. In addition, economic development in Berlin was greatly conditioned by the physical isolation of the city and its special status, which resulted in extremely low growth during the period 1980-1986. The fall of the Berlin wall and the

reunification refurbished the city's economic dynamism. Berlin registered high growth rates from 1989 to 1991.

Table II.2

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN CAPITAL
AND URBAN REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12=100
Hamburg (D)	110.07
Lazio (I)	109.73
Madrid (E)	109.42
Île de France (F)	108.32
Lisbon and the Tagus Valley (P)	104.56
Brussels (B)	101.68
South East (UK)	101.20
Hovedstadsregionen (Dk)	100.36
Western Netherlands (Nl)	100.31
Attica (Gr)	97.83
Berlin (D)	88.36

Source: derived from EUROSTAT data.

High growth in capital and urban regions was mainly achieved thanks to rapid economic expansion during the first half of the decade. These political and financial centres preceded the rest of the Continent in the process of economic recovery after the oil shocks. All the regions included in this category, bar Athens, and, to a much lesser extent, Copenhagen, achieved greater growth rates than their respective national average until 1986. Since 1986, growth rates declined in relative terms in all regions in this group but Île de

France, the South East of England, the area around Copenhagen, and the Western Netherlands, a phenomenon which coincided with the upsurge of intermediate dynamic regions and the moderate recovery experienced by several former industrial centres. Up until 1989, the regions of Paris and London led their countries in terms of growth during the 1980s, and only relatively poor performances in 1990 and 1991, pulled them back: second place in the case of Paris, fourth in the case of London.

Capital and urban regions

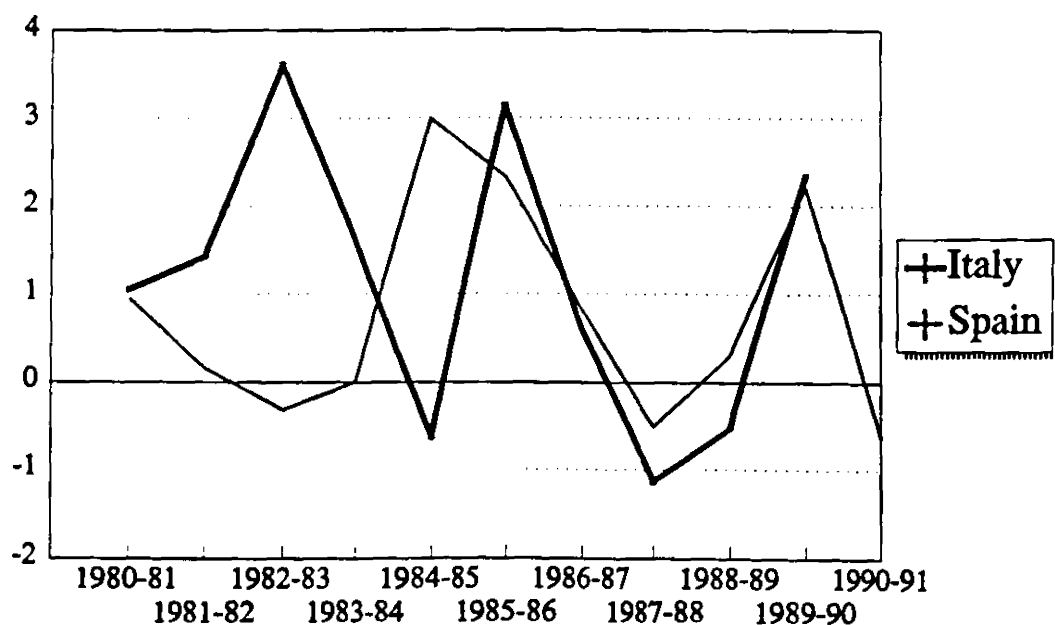


Figure II.6. Annual variation (in %) of the share of capital and urban regions in the total GDP of Italy and Spain.

Figure II.6 corroborates the declining trend observed in growth rates during the 1980s

in the capital regions of Italy and Spain¹¹. Despite yearly ups and downs, annual increases in the share of the Lazio in the total Italian GDP averaged more than 2 percentage points with respect to the previous rate during the first half of the 1980s. A sharp decline was observed starting in 1986, but there were clear signs of recovery by 1989. In the case of Madrid, an initial period of relative decline was quickly followed by high relative growth starting in 1983 which lasted until 1987

Former mass production areas are characterized by low growth rates throughout the 1980s. Wales, Bremen, the Saar region and Lower-Saxony are the only Fordist regions which barely surpass the European growth average (Table II.3). This is due to the fact that the great majority of the former Fordist zones have been unable to transform in a brief interval of time the traditional and rigid industrial structure identified with mass production into a more flexible system capable of responding to new market demands.

In general terms, it could be stated that regions with the greatest dependency on basic Fordist sectors like coal-mining or iron ore and steel (Lorraine, Picardy, Nord-Pas de Calais, Asturias, Wallonia and the North, and North West of England) have plunged into deep economic recessions, despite the financial efforts made by national governments and the European Commission to stop this trend of decline.

Conversely to capital and urban areas, there is no clear cut trajectory in growth behaviours of former mass production regions during the 1980s. As shown in Figure II.7, the annual variation of the share of former mass production regions in the total GDP of Italy and Spain follows two very different trajectories. In Liguria and Piedmont, where a deep process of economic rationalization was undertaken, the early 1980s were a period of deep recession. The return to competitiveness of numerous industries in this area resulted in

¹¹ Information in this Figure and the following Figures in this chapter refers only to Italian and Spanish regions, since they are the only two countries in the EU which have regions included in all six categories of regions established in the analysis.

Table II.3

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN FORMER
MASS PRODUCTION REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12=100
<hr/>	
Wales (UK)	102.67
Bremen (D)	102.65
Saarland (D)	100.50
Lower Saxony (D)	100.07
Piedmont (I)	99.72
Liguria (I)	99.00
Lower Normandy (F)	98.05
Yorkshire and Humberside (UK)	96.33
North (UK)	94.12
North West (UK)	93.74
Champagne-Ardenne (F)	93.51
Wallonia (B)	92.68
Upper Normandy (F)	91.49
North Rhine-Westphalia (D)	91.12
Basque Country (B)	90.83
Nord-Pas de Calais (F)	87.80
Cantabria (E)	85.65
Asturias (E)	85.25
Picardy (F)	82.81
Lorraine (F)	81.74
Northern Netherlands (NL)	64.67

Source: derived from EUROSTAT data.

economic recovery from 1984-85 on. However, this recovery has not yet sufficed to bring back these regions to growth rates above the European average. In Spain, where the

industrial rationalization process adopted a much more 'cosmetic' form, a declining trend in the share of former mass production regions in the total GDP of the country is observed, in spite of conjunctural peaks.

Former mass production regions

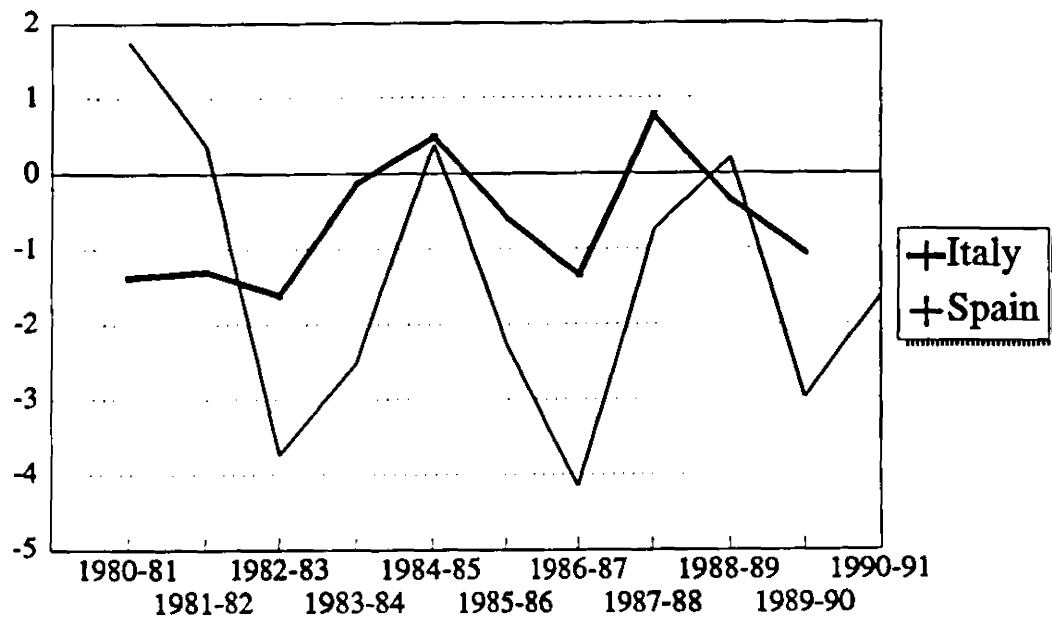


Figure II.7. Annual variation (in %) of the share of former mass production regions in the total GDP of Italy and Spain.

This lack of a clear cut growth trend is also observed within different states. In the United Kingdom, the four former industrial mass production havens (the North and North West of England, Yorkshire and Humberside, and Wales) only share growth rates above the national average in the period 1989-91. Before that, below average rates are the norm in the cases of the North, the North West, and Yorkshire and Humberside, with occasional periods

of above average growth rates¹². In Wales the only declining period is between 1983 and 1986. In France contrasting trajectories are also perceived. The North-Pas de Calais and Lorraine fit the model of recovery after a period of deep recession and industrial rationalization. On the contrary, growth rates in Picardy remain more or less below the French level throughout the whole decade.

Intermediate dynamic regions perform, as a group, second only to capital regions and urban areas (Table II.4). Aside from the statistical peculiarity of Luxembourg¹³, and Alsace and Lombardy, which experience rates of growth slightly below the EC average, all regions in this category accomplish high relative growth. The most vigorous regions are those which have succeeded in combining internal dynamism, and a privileged position along the communication axes or close to large metropolises, with an appealing image to attract external investment. That is the case of the Southern Netherlands, Hesse, Midi-Pyrénées, Bavaria, East Anglia, Friuli-Venezia Giulia, Catalonia, and Aragón. The Balearic Islands have, besides, benefited from the expansion of the tourist sector.

As a rule, intermediate dynamic regions follow a rising growth trajectory during the 1980s. Italian and Spanish regions in this group start off the decade with rates of growth below the national average. However, the shift to positive values is achieved quite early in the case of Spain and since 1985 in Italy (Figure II.8). Comparable regional behaviours are observed in Germany, and France. In Germany, Hesse and Bavaria progress throughout the decade with growth levels higher than average¹⁴, and Baden-Württemberg falls behind only since 1989. Midi-Pyrénées, aside from the period between 1983 and 1986, has seen a

¹² These periods are 1983-86 for Yorkshire and Humberside, and 1986-89 for the North West of England.

¹³ Luxembourg has been among the best performing regions in terms of growth during the 1980s. However, being a uniregional state, it has no intranational variation and therefore, using nationally weighted growth rates implies that growth equals the 100.

¹⁴ With the exceptions of 1980 and 1981 in the case of Hesse, and 1990 in the case of Bavaria.

Table II.4

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN INTERMEDIATE
DYNAMIC REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12 = 100
Southern Netherlands (NI)	118.50
Hesse (D)	112.34
Midi-Pyrénées (F)	109.54
Balearic Is. (E)	109.16
Bavaria (D)	108.81
East Anglia (UK)	106.85
Friuli-Venezia Giulia (I)	105.89
Catalonia (E)	105.58
Aragón (E)	105.03
Veneto (I)	104.78
South West (UK)	104.71
Flanders (B)	103.96
Aquitaine (F)	103.92
Eastern Netherlands (NI)	103.74
West of the Great Belt (Dk)	102.90
Trentino-Alto Adige (I)	102.29
Scotland (UK)	101.19
Valle d'Aosta (I)	100.96
East Midlands (UK)	100.79
Valencia (E)	100.38
Baden-Württemberg (D)	100.01
Luxembourg (L)	100.00
Alsace (F)	99.54
Lombardy (I)	99.40

Source: derived from EUROSTAT data.

Intermediate dynamic regions

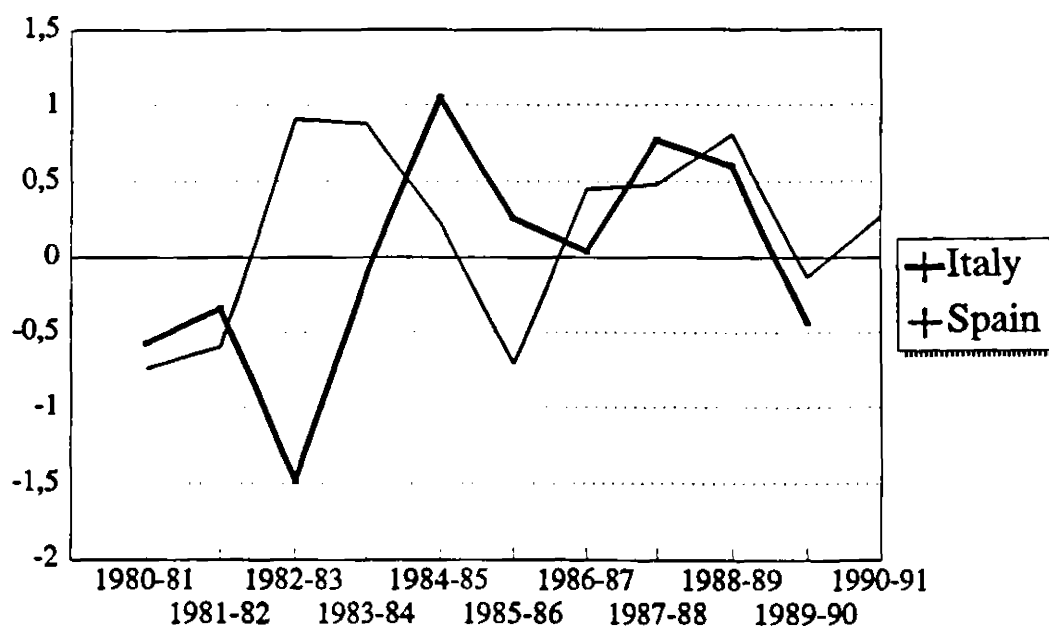


Figure II.8. Annual variation (in %) of the share of intermediate dynamic regions in the total GDP of Italy and Spain.

constant economic expansion. In Aquitaine the ups and downs are much more significant. Variation in growth in British intermediate dynamic regions is more erratic, with a slight stagnation in relative growth rates in East Anglia and the South West since 1986, which contrast with rising trends in the East Midlands.

On the other side of the scale, we discover the intermediate less dynamic regions. Two subgroups can be established within this set: those regions with remnants of mass production structures, such as Franche-Comté, West Midlands, and Rhineland-Palatinate, and those that have been left aside or have been incapable of adjusting their structures to the new socio-economic processes (Auvergne, Limousin, Brittany, Schleswig-Holstein, Umbria,

Table II.5

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN INTERMEDIATE
LESS DYNAMIC REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12=100
Auvergne (F)	102.22
Limousin (F)	100.91
Poitou-Charentes (F)	100.57
Languedoc-Roussillon (F)	99.73
Pays de la Loire (F)	99.33
Provence-Alpes-Côte d'Azur (F)	99.16
Navarre (E)	98.90
Brittany (F)	98.50
West Midlands (UK)	98.27
Centre (F)	98.22
Rhône-Alpes (F)	97.99
Burgundy (F)	97.26
Franche-Comté (F)	96.99
Marche (I)	96.85
Tuscany (I)	96.37
East of the Great Belt (Dk)	95.68
Emilia-Romagna (I)	94.76
Schleswig-Holstein (D)	93.22
Rhineland-Palatinate (D)	92.22
Umbria (I)	91.56
Rioja (E)	87.44
Corsica (F)	80.62

Source: derived from EUROSTAT data.

Marche, or Navarre). Both groups, as well as the areas that enjoyed the greatest spurt in the early stages of the process of socio-economic restructuring (late 1970s and early 1980s) like

Emilia-Romagna, Tuscany, Rhône-Alpes, Languedoc-Rousillon, and Rioja, have been unable to keep up with the growth pace set by the dynamic areas of the EU.

With few conjunctural exceptions (Auvergne, Limousin, Poitou-Charentes), intermediate less dynamic regions perform below the EU mean (Table II.5). However, usually, growth rates in intermediate less dynamic regions remain fairly close to the European average. The only exceptions are Rioja and Corsica, whose performance was more than 10 points below the European average.

This type of regions tend to maintain a relatively stable trajectory throughout the decade. Italian intermediate less dynamic regions, for example, display constant rates of decline of their share in the total Italian GDP. And Spanish regions, despite presenting a typical saw profile, follow a parallel growth trajectory to that of Italian regions (Figure II.9).

The same could be said for France and Germany. French intermediate less dynamic regions perform slightly below the national average, with occasional periods of above average growth. These high growth intervals are fundamentally centred between 1983 and 1986. Limousin and Auvergne are an exception to the rule, since they consistently score around the French average. Growth rates in Schleswig-Holstein and in Rhineland-Palatinate are placed slightly below the national average until 1986, when they suffer a downward turn.

All peripheral dynamic regions grow above the European average. However, within this set, we encounter large internal differences in growth patterns. This group includes two of the regions with the highest rate of growth (the tourist resorts of the Canary and the Greek Islands), alongside with regions that barely achieve above average rates of growth¹⁵ (Table II.6).

¹⁵ As in the case of Luxembourg, the growth rate of the Republic of Ireland is biased downwards by the statistical treatment of data, since no internal regional variation is contemplated by up to level II of the NUTS regional division of EUROSTAT.

Intermediate less dynamic regions

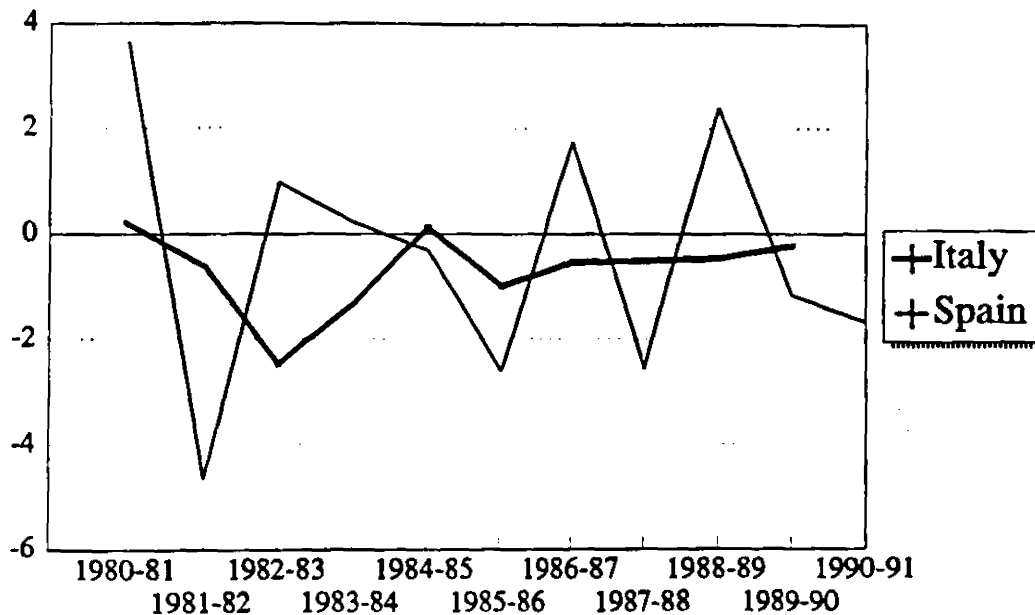


Figure II.9. Annual variation (in %) of the share of intermediate less dynamic regions in the total GDP of Italy and Spain.

The variation in growth rates can be attributed to the vastly diverse economic and social conditions of several of the regions included in this category. As mentioned before, some of these regions have little more in common than problematic accessibility to core areas. However, in the Greek and Canary Islands this handicap has been surmounted by the resort to tourism.

Furthermore, rates of growth in peripheral dynamic regions have followed a downward trajectory. As we can see in Figure II.10, the highest growth rates in Italian and Spanish regions belonging to this set, were attained in the early years of the decade, in the

Table II.6

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN PERIPHERAL
DYNAMIC REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12 = 100
Canary Is. (E)	120.02
Islands of the Aegean and Crete (Gr)	115.18
North (P)	108.56
Murcia (E)	104.82
Abruzzi (I)	104.24
Molise (I)	101.91
Northern Greece (Gr)	101.57
Puglia (I)	100.62
Sardinia (I)	100.48
Ireland (Irl)	100.00
Madeira (P)	-

Source: derived from EUROSTAT data.

case of Italy, and in the central years in the case of Spain. Since 1986-87 growth levels fluctuate around the national mean. Similar trends are observed in other peripheral dynamic regions. Growth in the North of Portugal, in Northern Greece and in the Greek Islands, and in the Republic of Ireland is cast in the same mould: high growth levels between 1980 and 1986, followed by rates slightly above the national average between 1986 and 1989, and a moderate decline with respect to the national mean in the period 1989-1991.

Finally, peripheral less dynamic regions fare worse than any other group, but former mass production areas. Leaving aside the exception of Campania and Extremadura, peripheral

Peripheral dynamic regions

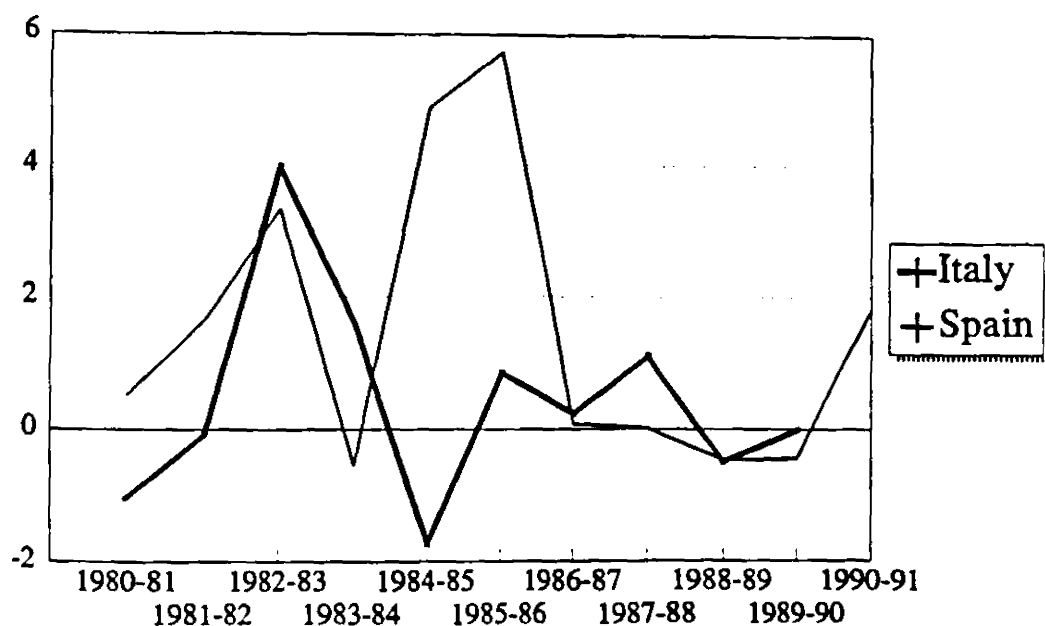


Figure II.10. Annual variation (in %) of the share of peripheral dynamic regions in the total GDP of Italy and Spain.

less dynamic regions grow below the average. Growth rates are particularly low in Basilicata, Galicia, the Centre of Portugal, Castile and León, and the Alentejo (Table II.7). These low growth regions have remained -in spite of local or sectoral progress- anchored in an agricultural society, which is being progressively transformed by the growth of a precarious service sector (Rodríguez-Pose, 1995).

Growth trajectories in peripheral less dynamic regions are also fairly similar. In Italy and Spain (Figure II.11), as well as regions belonging to this set in Portugal, Greece and the United Kingdom, witnessed a sudden relative decline in the period of 1983-1984, coinciding with the upturn in the economic cycle. By the end of the decade, peripheral less dynamic

Table II.7

**NATIONALLY WEIGHTED MEAN ANNUAL GROWTH IN PERIPHERAL
LESS DYNAMIC REGIONS
(1980-1991)**

REGION	MEAN ANNUAL GROWTH OF GDP EUR12=100
Campania (I)	104.78
Extremadura (E)	103.27
Northern Ireland (UK)	99.00
Sicily (I)	98.69
Andalusia (E)	97.86
Calabria (I)	97.81
Castile-La Mancha (E)	97.58
Central Greece and the Peloponnese (Gr)	96.26
Algarve (P)	93.23
Basilicata (I)	91.97
Galicia (E)	88.52
Centre (P)	87.96
Castile and León (E)	87.17
Alentejo (P)	70.08
Azores (P)	-

Source: derived from EUROSTAT data.

regions register a relative recovery, which allows them to reach again average levels of growth, coinciding with a downturn in the economic cycle, and the crisis of the beginning of the 1990s.

Peripheral less dynamic regions

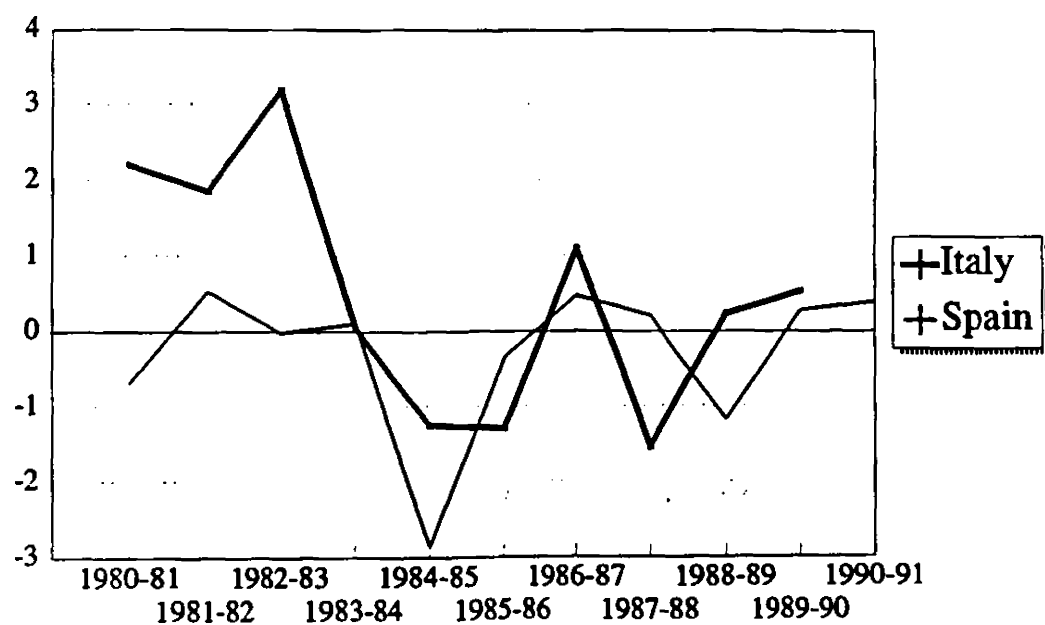


Figure II.11. Annual variation (in %) of the share of peripheral less dynamic regions in the total GDP of Italy and Spain.

100
100



CHAPTER III

THE SOCIAL BASES OF REGIONAL GROWTH

In Chapter I it was argued that social and political conditions today play a greater -or, at least, more visible- role in the determination of the growth potential of an area than they did during the high-point of the model of mass production. The flexibilization of the productive system has shaken the traditional bases of locational analysis, giving leeway for a greater decentralisation of the centres of production and a reduction of the initial costs of setting up industries. In this context, technological advances seem to have rendered physical distances and the dependency levels on raw materials and labour less important, and the organisational systems of most firms have been substantially transformed. A vertical organization is no longer an essential element in order to maximize benefits, neither are economies of scale, scope, nor the existence of externalities, really absolutely necessary. Instead, the creation of both productive and informational networks is sought after, as is a way in which different productive entities can be integrated with them. As a result, one can say that the spatial spectrum of the location of firms has expanded enormously, owing to the fact that the basic factors which determine the placement of production plants -capital, raw materials and labour- now possess greater mobility than ever before.

In this changing scene, one must supplement economic factors -which are still of great importance when it comes to determining the location of productive units, and, hence, of growth itself- with other causes of a social or political nature, as factors influencing spatial development. In fact, in Chapter I it was maintained that certain social and political factors could be at the root of a great number of changes recently occurring in the productive structure, and thus, could ultimately determine future growth rates. Information and skills are indeed increasingly considered as basic elements for the genesis of innovation and, thus of new productive activity (Elam, 1993).

The main aim of this chapter, in fact, is to try to determine whether the claim that socio-economic restructuring has rendered the connection between social conditions and growth more visible is sustainable or not in the European regional context, and whether there

is a significant association between certain sets of social circumstances and regional growth levels in the EU during the 1980s and early 1990s. For various reasons, the task is by no means an easy one. Firstly, as was argued in Chapter I, a direct and linear relationship between a set of specific social conditions and growth levels in a determined area does not always exist. Any given social situation tends to influence the socio-economic structure which, in turn, pushes or discourages economic actors to invest or create wealth in a certain area, the factor which ultimately determines the potential of growth in any given place. Furthermore, the influence of social conditions -as was already stated- is not measurable in the short-term, but rather in the medium and long-run. Whereas economic factors, such as capital and investment, and technological progress, have attained great mobility and have almost immediate effects on growth rates, shifts in social conditions are much slower and their influence on the growth rates of an area is exerted with certain time lags. One might expect, then, that inherited social conditions will bear a greater influence on spatial development than the variations derived from the interaction between innovation and the existing social fabric during our period of study. In this sense, the absence of data going back before 1980 may prove to be an obstacle for the definitive validity of the results obtained, which must, in any case, be taken with extreme caution.

Secondly, the relationship between social conditions and economic growth is not a simple one way cause-effect connection. The social setting alters growth trends, while, at the same time, economic growth exerts a certain influence on the social panorama. Furthermore, together with social conditions, many other independent factors intervene in the shaping of growth trends. Therefore, any direct link between growth and the prevailing social community in any given space, is an extremely risky one, and might turn out to be misleading.

Last but not least, we are faced with a problem of availability of statistics. Originally, my intention was to include subject matters such as demography, well-being, quality of life, the educational system and the composition of the labour market in the social analysis.

Obtaining indicators of this type at national level does not prove too difficult and, in fact, comparative sociological studies have blossomed at this scale. The problem arises when one descends to the regional dimension. In this context statistical deficiencies are multiplied. As stated in Chapter II, the European Union's REGIO database only includes -and rather haphazardly at that- demographic structure, the make-up of the labour market and unemployment levels as social aspects. There is no or very partial information on issues like the educational attainment levels of the population, on migration, poverty, integration of immigrants and minorities, or on the general state of well-being. This shortage of regional data seriously hampers any attempts at developing a fuller social analysis of growth performance.

Due to these problems of data availability, the construction of the social data base used in this chapter has been a time-consuming and arduous task, since it involved -together with the use of EUROSTAT data- managing information furnished by national statistical offices following different (and not always comparable) criteria. The final database on social conditions includes 23 different variables touching aspects such as the make-up of the labour force, unemployment indicators, demographic structure and population change, educational enrolment, and urban structure (Table III.1).

Nevertheless, a serious shortage of data was observed in the case of the Greek regions, for which no complete social data set could be gathered. The national average instead of regional data had to be used in many social variables for Danish regions, since the NUTS level does not correspond exactly to any of the internal administrative divisions appearing in the national statistical yearbooks. Total, female and youth activity rates for Denmark refer to 1989. Furthermore, certain data for Portugal could not be traced back to 1980, and no complete social data set was compiled for the Portuguese region of Algarve. Labour structure and unemployment variables for Corsica start in 1982.

Table III.1

Variables Used in the Cluster Analysis

Variable	Definition
<i>Labour force variables</i>	
ACTTOT83	Active population rate (in %) in 1983.
ACTFEM83	Female activity rate (in %) in 1983.
ACTYOU83	Youth activity rate (< than 25) (in %) in 1983.
ΔACTTOT	Mean annual growth rate of total activity between 1983 and 1990.
ΔACTFEM	Mean annual growth rate of female activity between 1983 and 1990.
ΔACTYOU	Mean annual growth rate of youth activity between 1983 and 1990.
PARWOR90	Percentage of part-time employment in 1990.
ΔPARWORK	Mean annual growth rate of part-time work between 1980 and 1990.
<i>Employment variables</i>	
UNEMPL80	Unemployment rate (in %) in april 1980.
UNEYOU80	Youth unemployment rate (< than 25) (in %) in april 1980.
UNEMLT90	Long-term unemployment (more than 1 year unemployed) in april 1990.
<i>Demographic structure</i>	
POPYOU90	Youth population (under 15 years of age) (in %) in 1990.
POPELD90	Elderly population (65 and older) (in %) in 1990.
DEPRAT90	Demographic dependency ratio (youth+elderly population/adult population) in 1990
ΔPOPYOU	Mean annual growth rate of youth population between 1980 and 1990.
ΔPOPELD	Mean annual growth rate of elderly population between 1980 and 1990.
ΔDEPRAT	Mean annual growth rate of the demographic dependency ratio between 1980 and 1990.
<i>Population change</i>	
DENSIT90	Population density (in inh./Km ²) in 1990.
ΔPOP	Population change (in %) between 1980 and 1990.
MIGRAT	Migration rate between 1980 and 1990.
<i>Educational enrolment</i>	
EDUSEC90	Percentage of total population enrolled in secondary education in 1990.
EDUUNI90	Percentage of total population enrolled in university-level education in 1990.
<i>Urban structure</i>	
CITPOP90	Percentage of the regional population living in the main city in 1990.

III.1.- THE CONNECTION BETWEEN SOCIAL CONDITIONS AND REGIONAL GROWTH.

The European regional context is an extremely complex social reality. The problem, thus, is how to extract from this social web a set of factors which, combined in one territory, are capable of providing an adequate setting for prompting economic growth. Can social conditions favour growth? If so, what are the social elements which have done so in Europe during the 1980s? Can common denominators be found for all the EU in such a complicated social context as the European one?

The problem that arises at this point of the analysis is that of pinpointing the influence that certain sets of social conditions can exert on economic growth. The study of the geographical distribution of the various social indicators does not allow us to detect any clear connection between any of the variables included in the analysis and the regional economic growth rate. This impression is corroborated by the coefficients of correlation between the dependent and independent variables (Table III.2).

None of the social indicators included in this section correlate with the regional economic growth rate at levels which, in statistical terms, can be considered significant. The highest positive coefficients are obtained with the variables describing high activity rates -be it of women, of the young or as a whole- and in population change indicators. However, even this provides us with a very modest correlation. The correlation coefficient between the other indicators and economic growth is often close to zero. This obviously means that there is no individual association between the variables being studied.

In the light of these results, one might be tempted to conclude that the social dimension is not connected to the regional growth rate in the EC, and that any link between social indicators and regional growth rates must be nothing more than pure coincidence or the result of a spurious relationship. However, if we were to follow this strict line to the end,

Table III.2

Correlation Coefficient of Independent Variables with Growth

Variable	Correlation coefficient with growth
<i>Labour force variables</i>	
ACTTOT83	0.241
ACTFEM83	0.180
ACTYOU83	0.108
Δ ACTTOT	0.276
Δ ACTFEM	0.175
Δ ACTYOU	0.247
PARWOR90	-0.024
Δ PARWORK	0.024
<i>Employment variables</i>	
UNEMPL80	-0.092
UNEYOU80	-0.001
UNEMLT90	-0.189
<i>Demographic structure</i>	
POPYOU90	-0.069
POPELD90	-0.078
DEPRAT90	-0.122
Δ POPYOU	-0.064
Δ POPELD	0.162
Δ DEPRAT	0.090
<i>Population change</i>	
DENSIT90	0.181
Δ POP	0.337
MIGRAT	0.341
<i>Educational enrolment</i>	
EDUSEC90	-0.312
EDUUNI90	0.041
<i>Urban structure</i>	
CITPOP90	0.081

it would not only mean having to deny any sort of association between the social dimension and regional economic growth, but it would also limit the possibility of undertaking similar analyses, which take as the independent variable the socio-economic structure, or even any of the classic economic indicators.

Nonetheless, the coefficient of a linear correlation only compares two variables individually. Therefore, the fact that two indicators possess a low correlation does not necessarily imply that a combination of various indicators with similar correlation indices is not connected to the variable we are attempting to explain. Hence, we cannot infer from the absence of significant correlation coefficients between a set of social variables and the regional growth rate taken individually that such a complex reality as is the social one exerts is not related to the levels of growth. We might therefore try a multivariate form of analysis so that we can better understand how the interaction of a series of social conditions can transform itself into the engine of or a brake on regional growth in a specific period.

III.1.1.- METHODOLOGY.

The fact that there is no direct and linear cause-effect relationship between a set of specific social conditions and growth rates, that most social indicators used in traditional linear regression analyses of growth have manifested a strong fragility (Levine and Renelt, 1992, p. 942), and the lack of long time series of data, limits the choice of econometric methods with which to tackle, from a cross-sectional and quantitative point of view, the social bases of regional growth. This is the reason why methods which analyze cause-effect relationships (mainly multiple regression methods) should be applied with extreme care in order to avoid problems of simultaneous causation, multicollinearity, and even spatial autocorrelation. Furthermore, in linear regression methods, the risk of omitted variable bias is amplified by the quest for parsimony, and, in this case the use of time series analysis is ruled out by the lack of long time series of data. Therefore, in my opinion, the use of traditional probabilistic quantitative methods in the analysis of social causes and conditions

of economic growth should be limited to a strict minimum, only when significant associations between social factors and growth are determined.

Cluster analysis provides a feasible way to elude problems generated by simultaneous causation, spatial autocorrelation, and the omitted variable bias, by means of grouping sundry social data into clusters or taxonomies. As Aldenderfer and Blashfield underline, the fundamental aim of clustering procedures is "to form clusters or groups of highly similar entities. More specifically, a clustering method is a multivariate statistical procedure that starts with a data set containing information about a sample of entities and attempts to reorganize these entities into relatively homogeneous groups" (1984, p. 7). Consequently, the formation of clusters might enlighten in someway the set of social circumstances connected to certain types of economic growth in a large number of cases.

III.1.2.- THE SOCIAL BASES OF REGIONAL GROWTH IN WESTERN EUROPE.

III.1.2.1.- Main Hypothesis.

The aim of this section is to analyze the extent to which there is a connection between recent regional economic growth in Western Europe and local sets of social conditions, and to try to determine whether the territorial pattern associated with socio-economic restructuring is reproduced at a social level or not.

The main hypothesis is that, if the flexibilization and globalization of world economy has magnified the mobility of economic locational factors and shaken the bases of traditional locational analysis, social factors may play today a greater -or, at least, more visible- role in conditioning growth trends than they did during the zenith of the mass production period. Therefore, if growth patterns are now more connected to social conditions and social circumstances, the theoretical and empirical typology of European regions described in the

previous chapter¹, which also indicated meaningful differences in growth rates, would be reproduced to a large extent when evaluating exclusively social variables. This method implies grouping European regions into different social clusters -with no resort to variables indicating economic growth- and to see whether there is a significant correlation between the resulting clusters and regional growth rates during the 1980s.

Consequently, regions in the European Community will be assembled into six groups or clusters using iterative partitioning methods (specifically k-means clustering), according to the social conditions represented in the 23 social variables included in the data set. This clustering technique will produce exactly six different clusters of greatest possible social distinction, by means of minimizing the variability within each cluster and maximizing the variability between clusters. If these clusters replicate the groups depicted in the previous chapter, then a fairly strong association between local social conditions and economic growth in the post-Fordist era could be established. If, on the contrary, social clusters have no relationship with the preestablished theoretical clusters, it would mean that the relationship between social conditions and growth is weak.

III.1.2.2.- The national influence over regional social conditions.

As in the case of the analysis of growth levels, the problem of the national sway over regional social conditions biases any type of results. From a social point of view, Europe is by no means a homogenous entity. Significant contrasts are observed across regions and countries with respect to activity and unemployment rates, in population structure and population change, educational attainment, and standards of living.

¹ The different groups of regions depicted in the previous chapter were:

- Capital regions and urban financial centres.
- Former mass production regions.
- Intermediate dynamic regions.
- Intermediate less dynamic regions.
- Peripheral dynamic regions.
- Peripheral less dynamic regions.

Table III.3

Total Activity Rate in the EU
by Country
(1975-1991)

COUNTRIES	1975	1980	1985	1991
Eur 12	41.90	42.70	43.70	44.90
Belgium (B)	40.10	41.30	41.70	41.90
Denmark (Dk)	49.10	52.00	55.40	56.30
Germany (D)	44.00	45.40	47.40	48.00
Greece (Gr)	38.00	37.70	41.00	41.50
Spain (E)	38.70	36.10	36.30	39.40
France (F)	42.40	43.40	43.40	43.00
Ireland (Irl)	36.40	36.70	36.90	37.90
Italy (I)	38.30	39.80	41.10	42.50
Luxembourg (L)	41.70	41.80	42.30	43.80
Netherlands (Nl)	36.50	38.10	40.10	46.50
Portugal (P)	44.30	44.40	44.40	52.20
United Kingdom (UK)	46.10	47.60	49.00	49.60

Source: derived from EUROSTAT data.

National differences among member-states of the EU in terms of total activity rate are enormous. In 1991, the total activity rate in Denmark -the state in the EU with the highest active population- represented 56.3% of the population, that is, 18.4 percentage points above the activity rate of Ireland (Table III.3). Portugal was also above the 50% mark, whereas neighbouring Spain lingered below 40%. All other EU member-states had activity rates between 40 and 50% of the population, but with differences that ranged from 49.6% in the United Kingdom to 41.9 in Belgium.

Contrasts in activity rates across Western European countries have either remained more or less stable over a long period of time, or even increased slightly. In 1975, the difference between Denmark and Ireland -again the countries with the highest and lowest rates- was of 'only' 12.7 percentage points. Several other countries were placed below the 40% threshold (the Netherlands, Greece, Italy, and Spain). National divergence in growth of activity has resulted in a slight increase of disparities in activity rates. Most nations have experienced very slight increases in the rate of active population. Belgium, Germany, Greece, Spain, France, Italy, Luxembourg, and the United Kingdom have witnessed slight increases in total activity. More significant rises are observed in Denmark, Portugal, and the Netherlands, countries that -with the exception of the Netherlands- started off from high levels of activity. Growth of active population in Ireland was, in contrast, extremely modest.

Greater differences are observed in female activity rates. Female activity in Denmark in 1991 reached levels of 51.5% of the total female population, while in Ireland it amounted only to 24.4%, less than one half of that registered in Denmark. Greece was also below the 30% threshold, and most countries had rates ranging between 30 and 40% (Table III.4).

The national differences in female activity have increased in the last two decades and this has been the main cause for rising divergence in total activity. Women's work has experienced a large expansion in recent years, growing by more than 5 percentage points from 1975 until 1991, and despite swift changes, national disparities have not only been particularly persistent, but have also tended to increase. Growth of female activity has been particularly fast in Denmark, the Netherlands, and Greece. In contrast, some of the countries with lower rates of female activity at the beginning of the period have registered only moderate increases. This is basically the case of Ireland, and, to a lesser extent, of France and Belgium. Descending to the regional level, female activity rates clearly cluster -with little deviation- around national means.

Table III.4

Total Female Activity Rate in the EU
by Country
(1975-1991)

COUNTRIES	1975	1980	1985	1991
Eur 12	29.70	30.40	32.30	34.80
Belgium (B)	26.90	30.00	32.30	34.10
Denmark (Dk)	40.00	45.30	49.50	51.50
Germany (D)	31.90	33.80	35.60	37.20
Greece (Gr)	-	21.10	27.30	29.20
Spain (E)	-	-	-	-
France (F)	31.10	33.80	35.30	36.10
Ireland (Irl)	20.00	20.50	21.80	24.40
Italy (I)	22.50	25.70	27.90	30.50
Luxembourg (L)	24.80	26.40	29.30	31.60
Netherlands (Nl)	20.20	23.70	27.40	36.50
Portugal (P)	-	-	-	-
United Kingdom (UK)	33.70	36.40	38.70	41.50

Source: derived from EUROSTAT data.

The analysis of unemployment rates in the EU brings about a similar panorama. The percentage of unemployed was much higher in Spain and in Ireland -precisely the two member-states with the lowest active population- than in any other country in the EU. The Spanish unemployment rate in 1993 was 8.4 times that of Luxembourg; 4.3 times that of Portugal; 3.9 times that of Germany; and 2.3 times higher than the EU's average. In Ireland, the unemployment rates also doubled that of the EU (Table III.5).

Table III.5

Unemployment Rate in the EU
by Country
(1975-1991)

COUNTRIES	1975	1980	1985	1990	1993
Eur 12	4.10	6.00	10.80	8.30	9.40
Belgium (B)	5.10	7.90	11.80	7.60	9.40
Denmark (Dk)	5.20	6.90	7.20	8.10	10.30
Germany (D)	3.40	2.80	7.10	4.80	5.60
Greece (Gr)	2.30	2.80	7.70	7.20	0.00
Spain (E)	4.70	11.60	21.10	16.20	21.80
France (F)	4.00	6.20	10.10	9.00	10.80
Ireland (Irl)	8.00	8.00	18.20	14.50	18.40
Italy (I)	5.50	6.70	10.10	10.00	11.10
Luxembourg (L)	5.70	4.40	2.90	1.70	2.60
Netherlands (NI)	5.00	5.90	10.50	7.50	8.80
Portugal (P)	4.60	7.80	8.60	4.60	5.10
United Kingdom (UK)	3.20	5.50	11.40	7.00	10.40

Source: derived from EUROSTAT data.

Between 1975 and 1985 unemployment rates more than doubled in the EU, and, since then, with ups and downs, they have remained at levels of around 10 percent. However, significant differences in the levels of unemployment growth were registered across Europe. Unemployment rates in Spain and Ireland soared, reaching levels of more than 20% throughout the 1980s in most Spanish regions. Belgium, Denmark, Greece, France, Italy, and the United Kingdom also withstood significant increases in unemployment. In Germany, in the Netherlands, and in Portugal expansion of unemployment was kept within moderate

rates, and only Luxembourg witnessed a contraction of relative unemployment. Similar divergent trajectories are noticed with regard to youth unemployment and long-term unemployment.

The sway of national conditions over regional behaviours is also clearly evident in the case of educational enrolment. As seen in Map III.1, there are clearly distinctive national patterns in secondary school enrolment rates. All Belgian, Dutch and British regions have levels of secondary school enrolment which are 6 percentage points above the EU average, whereas no Danish, German, or French region -together with Luxembourg and Ireland- reach that level. In Italy, only Campania and Sardinia achieve similar enrolment rates to the ones registered in Great Britain, Belgium or the Netherlands, while the North of the country endures the similar low levels of secondary school enrolment as French or German regions. The situation in the Iberian Peninsula is more complex, since both in Portugal and in Spain, there are notable interregional differences, with regions like Madrid, the Basque Country, Navarre -with enrolment levels ranking amongst the highest in Europe- and other with relatively modest secondary school enrolment levels, like the North and the Centre of Portugal, Catalonia, Valencia, the Balearic Islands, Castile-La Mancha, and Extremadura².

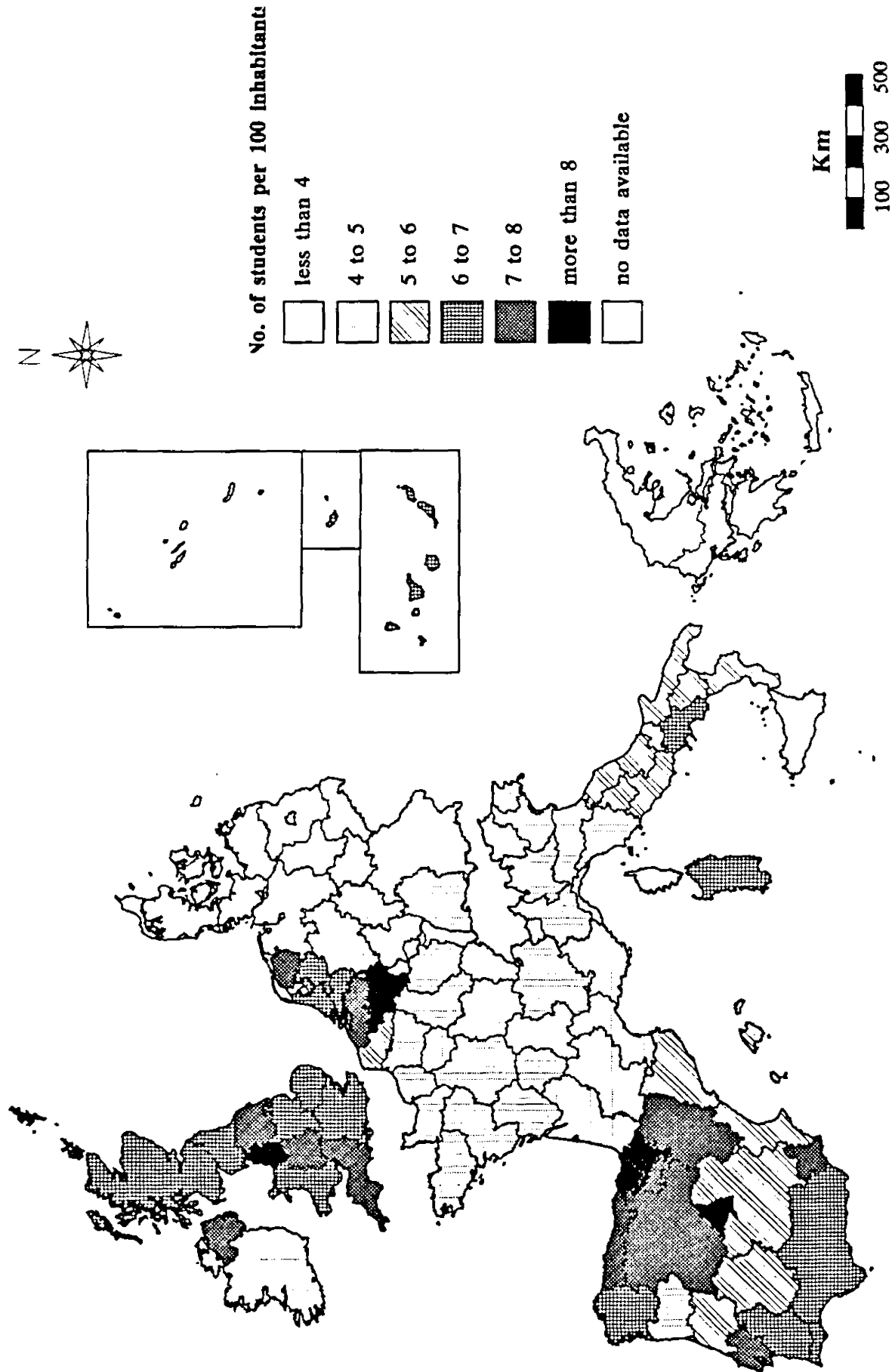
National differences in university enrolment rates are less noticeable, and significant internal contrasts are observed. The reason for these differences lies primarily in two factors: first of all the openness of a country's university system to admissions of secondary students, and, in second place, on the existence of universities at a regional level.

² The use of secondary school enrolment rates, expressed as a proportion of total population rather than of the relevant age group (as a result of lack of data) limits the comparability of data. As a consequence, cross-regional differences reflect not just the proportion of children who are in school, but also the size of the school age population. Therefore differences in demographic structure may to a large extent determine the variation in secondary school enrolment rates between the South and the North of Italy; two areas with very different levels of demographic dynamism. It does not, however, account for sharp contrasts among zones with fairly similar demographic structures, such as Belgium and the United Kingdom, on the one hand, and Northern France, on the other; or between Southern France and Northern Spain (*cf.* Map III.1).

SECONDARY SCHOOL ENROLMENT RATE

1990

Map III.1



The first factor determines different rates of enrolment between countries like Ireland, the United Kingdom, and Portugal on the one hand, and Denmark, Germany, Italy, France, or Spain, on the other. Numerus clausus procedures, low admission numbers, and in certain cases, a limited number of universities, restricts access to university in the first group of countries. Less selective selection procedures and greater capacity determine high enrolment rates in the other group (Map III.2).

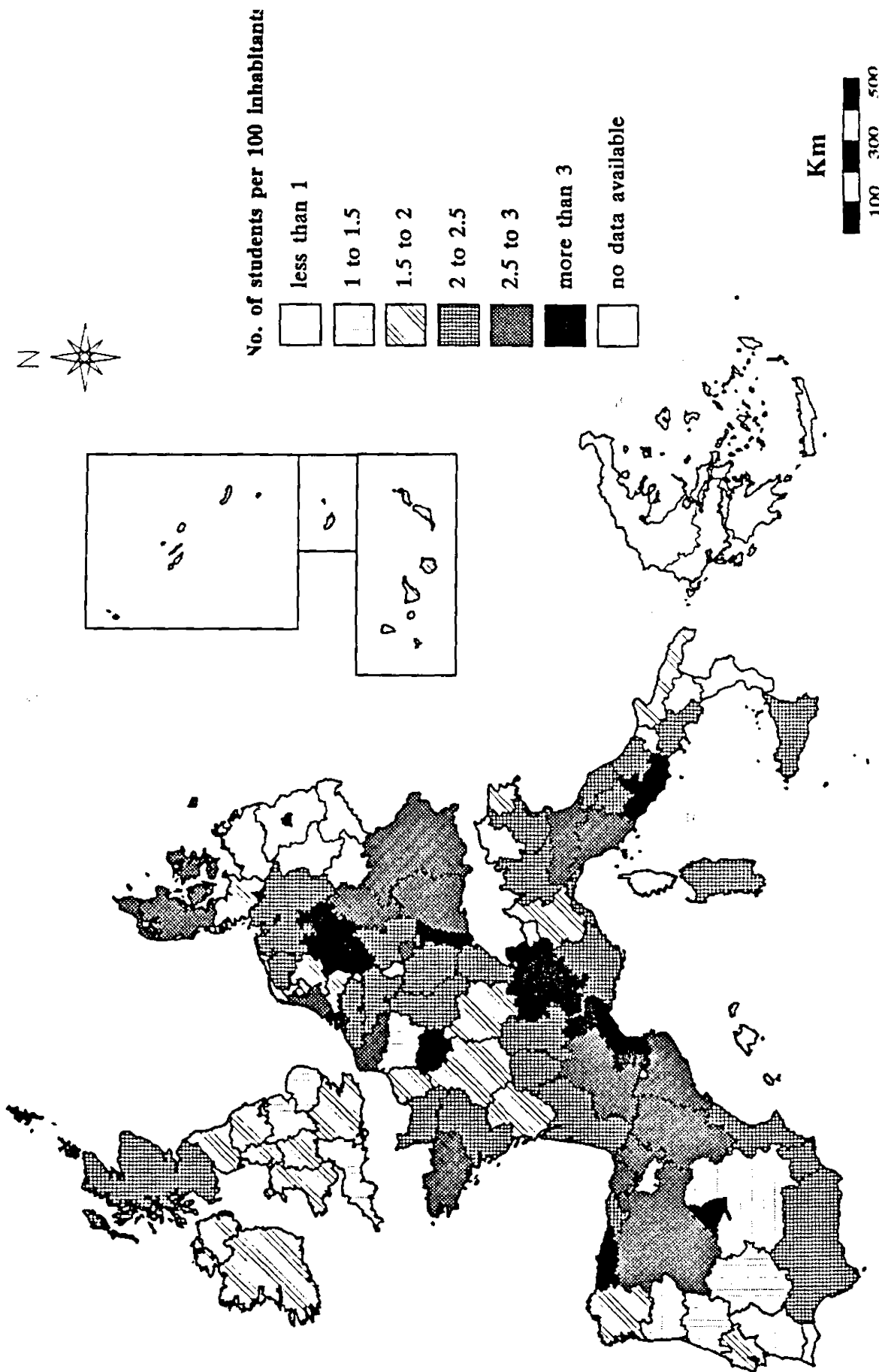
The number and dimension of universities in each region is responsible for a great deal of intranational differences in university enrolment. Regions with no universities or universities of recent foundation are clearly handicapped in this respect with regard to neighbouring areas. This is the case of, for example, Calabria, Basilicata, and Molise in Italy, with few universities. Students from these regions often attend universities in other areas of the country with well-established teaching centres and a long tradition of university-level studies, such as Emilia-Romagna, Tuscany, or Lazio. Similarly, in Germany students from Schleswig-Holstein often end up in universities in other *Länder*. In the French case, regions around Paris have to endure the attraction the numerous universities in the capital region exert on their students. And, in Spain, recently founded universities in Castile-La Mancha, Extremadura, Rioja, and the Balearic Islands have not yet succeeded in halting the migration of university students mainly to Madrid, Catalonia, and other neighbouring regions. A migration which, in the long run, leads to a shortage of qualified human resources in many of these issuing areas.

The influence national borders exercise on social conditions is also revealed when foreign population is considered. The percentage of foreign population is much higher in countries like Luxembourg, Belgium, Germany, or France, than in Ireland, Italy, or Spain. In regions like Baden-Württemberg, Hesse, Luxembourg, Brussels, Wallonia, Corsica, and the Île de France, the percentage of foreigners exceeds 9%, whereas in most Spanish and Italian regions it does not even reach 1% (Map III.3). Sharp contrasts are observed along the

UNIVERSITY ENROLMENT RATE

1990

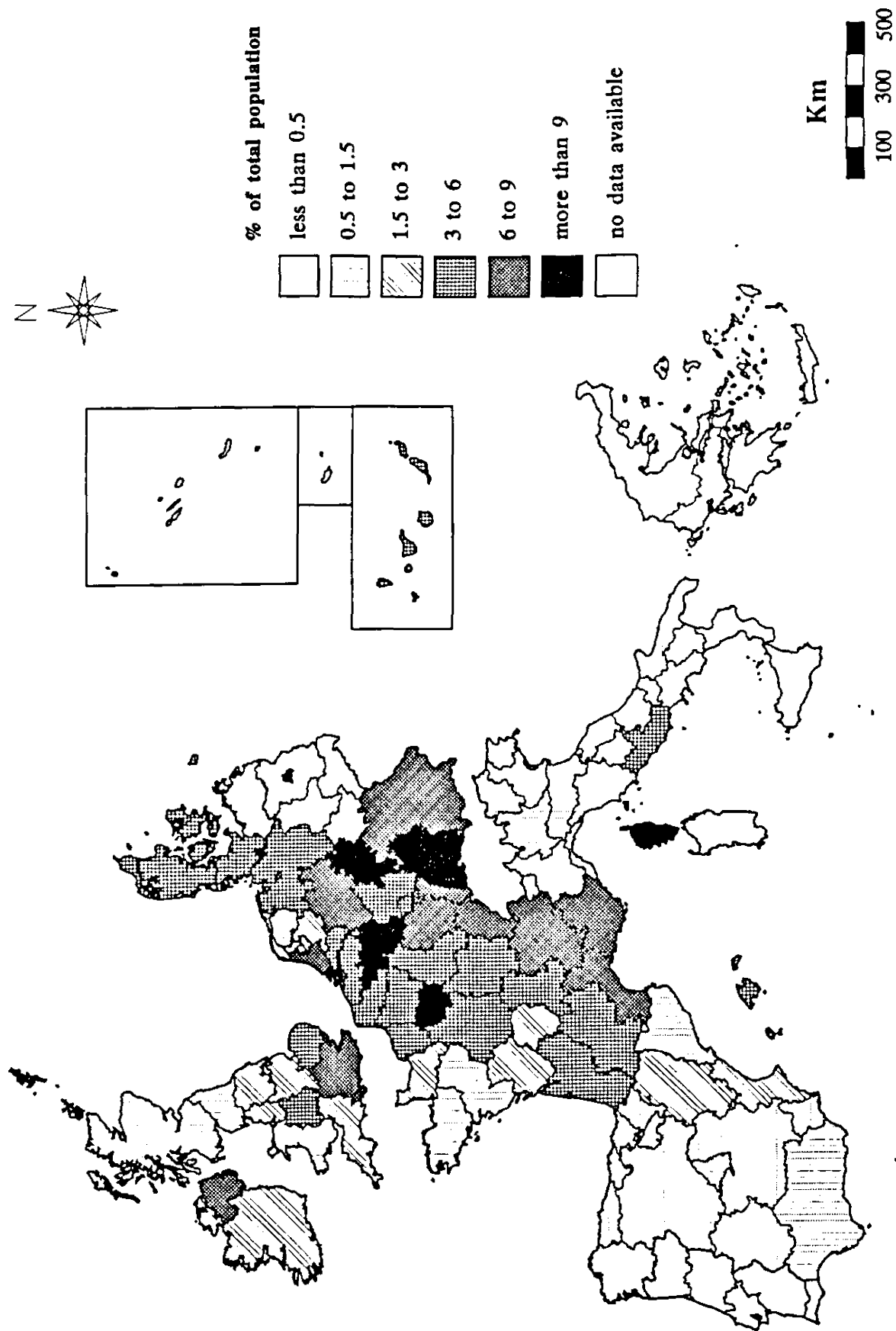
Map III.2



FOREIGN POPULATION

1990

Map III.3



Spanish-French and Italo-French borders, and also across the English Channel, despite the fact that the highest contingent of foreign population in Great Britain is located in the South.

When demographic factors are taken into account, the sway of the national dimension is somewhat stifled. With respect to the structure the population, the considerable national differences observed in the population of age 15 and less, fade away when the population of 65 and over is analyzed. The regional distribution of young population still follows more or less clearly defined national patterns. As seen in Map III.4, the border between France and its Northern neighbours, and between France and Italy, mark fundamental divides between two clearly disparate age structures. On the one hand, Northern France, with one of the highest birth rates in the EU and a considerable young contingent (of more that 20%), and, on the other, Germany and Belgium, which have witnessed for a long period of time very low birth rates, and with percentages of young population of only between 12 and 18%. A similar contrast is detected between France and Northern Italy, whose aged demographic structure is the result of several years of extremely low fertility rates, and between Ireland and Great Britain. Differences in shares of young population between Belgium and the Netherlands on the one hand, and Germany, on the other, are less conspicuous, but still evident.

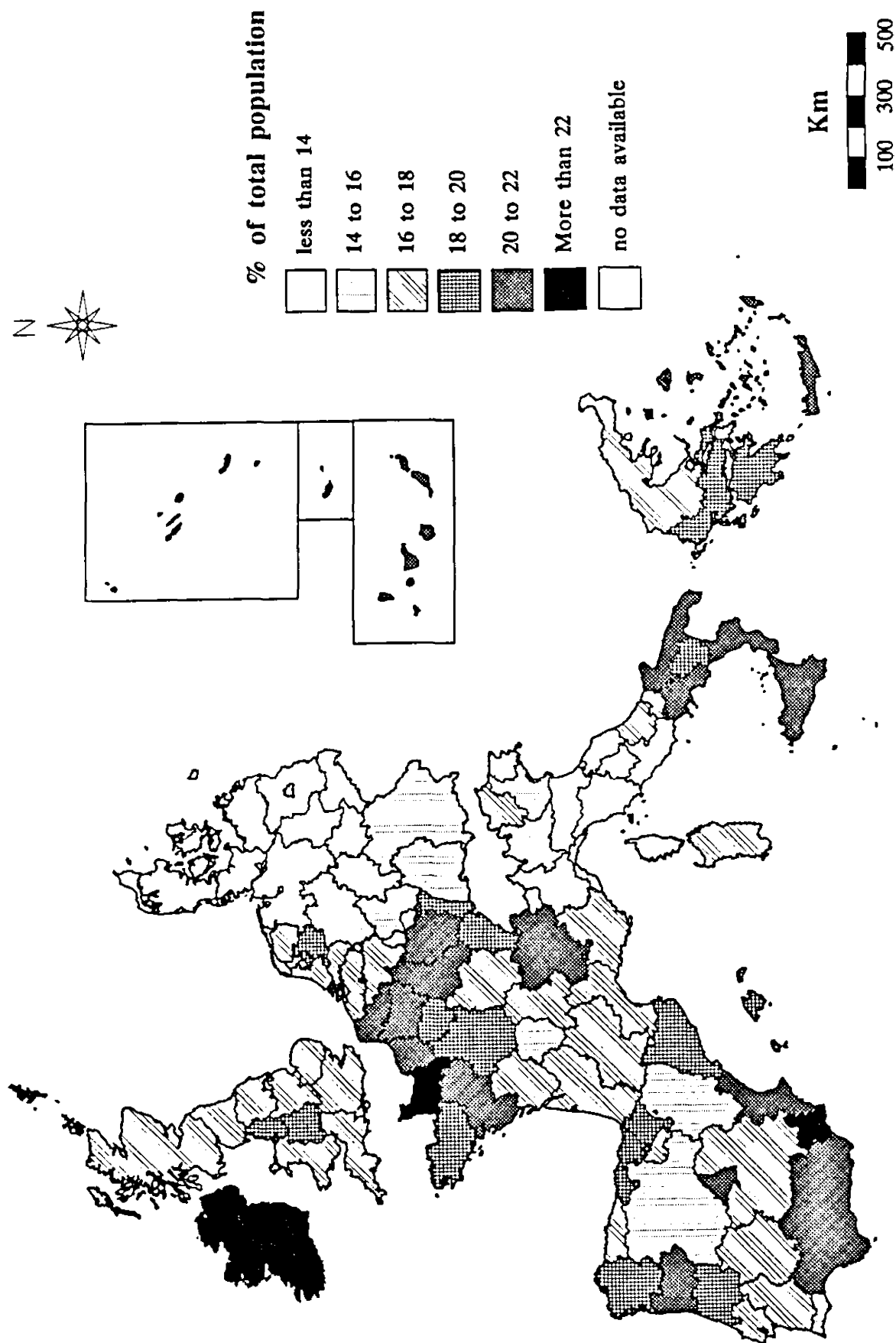
Strong intranational differences are also noticeable. Italy is the most strong case. The aged North contrasts with a demographically dynamic South, still considered as one of the demographic reservoirs in Western Europe. The contrast between Northern and Southern France is less pronounced than in Italy, despite differences of more than 6 percentage points. In Spain, there is no clearly defined north-south divide as in France of Italy, but unmistakable differences in population of 15 and less are registered between coastal areas and Madrid, on the one hand, and inland regions, on the other.

Intranational variation becomes the rule in the levels of elderly population (Map III.5). Strong internal differences are observed in France, Italy, Spain, and Portugal, while

POPULATION OF 15 AND LESS

1990

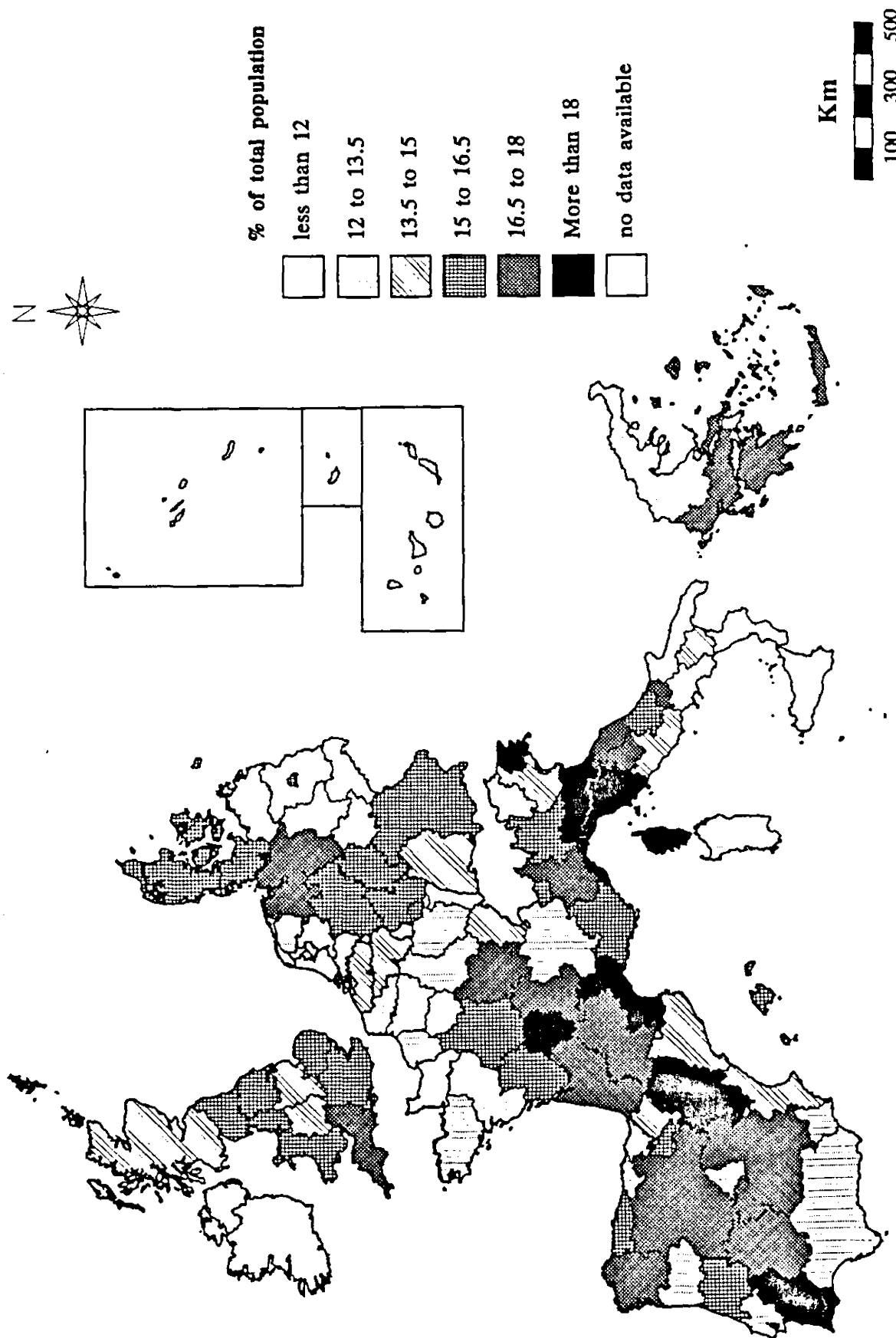
Map III.4



POPULATION OF 65 AND OVER

1990

Map



contrasts within Germany and the United Kingdom are also meaningful. Levels of more than 18% of population of 65 and over are achieved in regions in four countries, and this number increases to 7 when the 16.5% threshold is adopted.

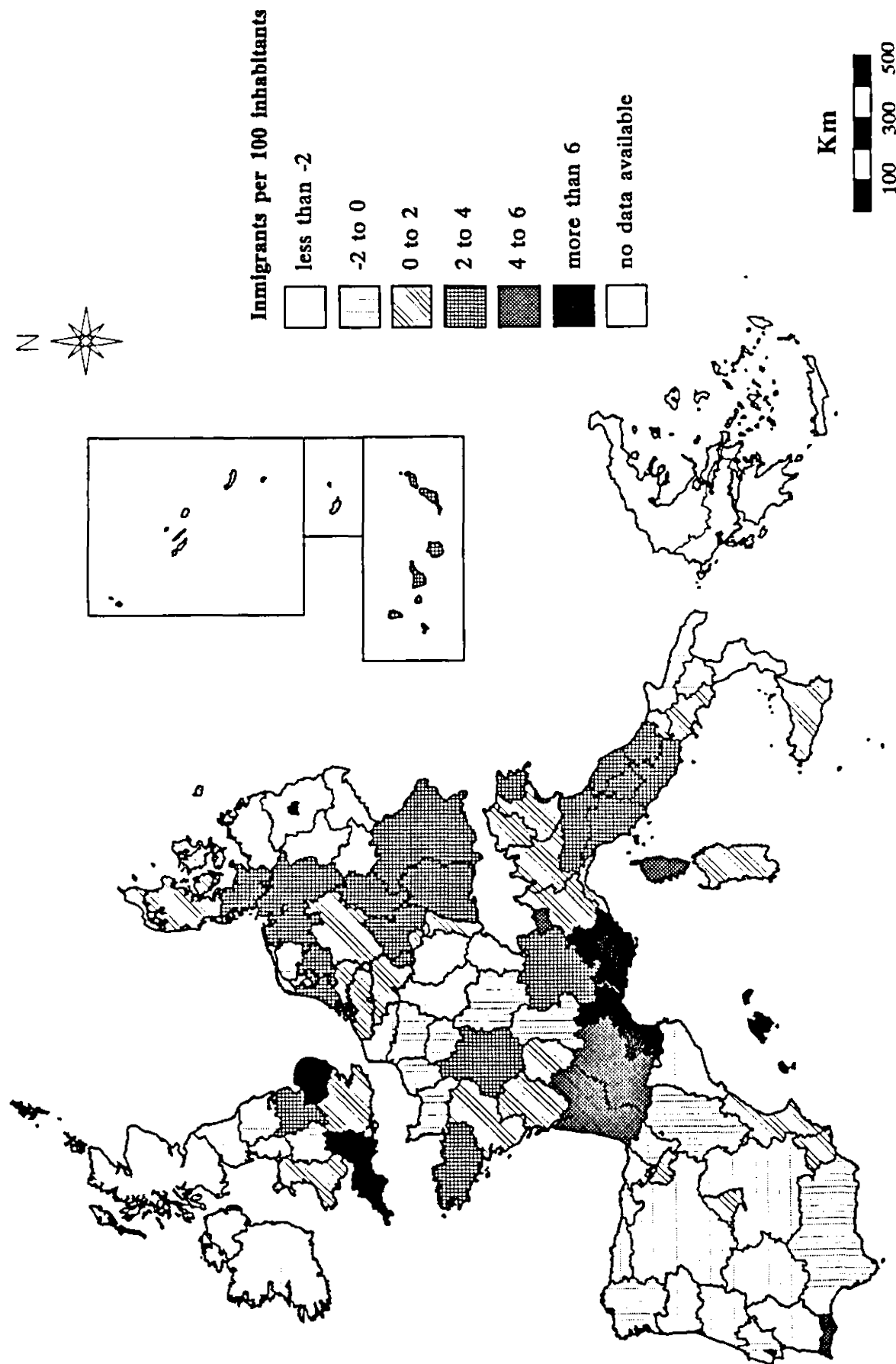
One of the consequences of strong intranational contrasts is the reduction of international ones. Nevertheless, in some cases national borders still mark significant differences in levels of elderly population. This is especially clear along the border between Germany and its Western neighbours. Population in Germany (with the exception of Baden-Württemberg) is older than in the Benelux, or in Northern France. Southern France and Northern Spain also display differences in age structure. The percentage of elderly population in Southern France is the highest in the country, while regions in North Eastern Spain -with the exception of Aragón- have fairly low rates of elderly population in the Spanish context.

Finally, the analysis of migration rates also shows -despite some exceptions in the cases of Germany, Spain, and Portugal- well-defined intranational, as well as international disparities (Map III.6). Migration differs across the French-German, the French-Spanish, and the French-Italian borders. In contrast to previous decades, the 1980s were a period of relatively low migration. Although in most European Regions the migration rate has been positive (with the exception of certain areas of the Italian Mezzogiorno, several regions in the Parisian Basin and isolated areas in Spain, Portugal, and the United Kingdom), positive migration rates have been almost negligible, in Spanish, Portuguese, Danish, and Belgian regions in particular, and, to a lesser extent, in Germany, Italy, the Netherlands, and most of the United Kingdom. Only a limited number of spaces have been capable of attracting population from other areas. And these areas have been restricted to either tourist resorts like Corsica, the Balearic Islands, the Alentejo, and the Southern French fringe. The South West of England and East Anglia have also benefitted from population moving out of the crowded the London area and lured to these areas by their excellent living conditions and socio-economic dynamism.

MIGRATION RATE

1980-1990

Map III.6



III.1.2.3.- Getting rid of the national effect.

As a consequence of the strong influence of the national dimension on regional social conditions, the use of raw social data for European regions in the cluster analysis proposed in this section would lead to the formation of clusters that reproduce the existing national borders. This fact corroborates the idea that the national dimension still has a greater sway over the social sphere than local circumstances. As we have seen, from a social point of view, regional variation tends to be relatively weak within a country, and the most significant differences are to be found in the international, rather than in the intranational scale. Therefore, in order to obtain feasible cross-national clusters there is a need to adjust for national effect before performing the analysis.

The method used in the analysis repeats the procedures for nationally weighting the dependent variable in the previous chapter. It consists of studying the internal social variation between regions within their national context and to compare afterwards this variation with the internal social variation in other European countries. The method observes the following steps:

- a) The global social database is divided into national data sets.
- b) National data sets are standardized in order to make them comparable. The mean of each variable equals 0 and the standard deviation represents a distance of one from the mean.
- c) Standardized national data sets are merged into another European database.

This method has the advantage of being a simple way of comparing cross-national data and preserving intranational variation at the same time. However, it is disadvantaged by the fact that countries with no internal regional variation (the uniregional countries: Ireland and Luxembourg) cannot be included in the final analysis.

III.1.3.- CLUSTER ANALYSIS.

The k-means analysis of data performed with the variables described in Table III.1³ produces six regional clusters which reproduce in great measure the theoretical and empirical division of regions in the post-Fordist era outlined in the previous chapter. In spite of the fact that there are significant individual exceptions and that clusters often combine groups of low growth or high growth regions stemming from different regional typologies, the results of the analysis support the idea of the existence of a meaningful relationship between certain sets of social conditions and economic growth; the hypothesis that the strengthened mobility and the greater availability of traditional factors fostering growth promoting activities (mainly capital and technology), have made bonds between social conditions and growth more visible. Furthermore, there is a statistically significant correlation between the fact of belonging to a certain social cluster and the rate of economic growth experienced by those regions during the 1980s.

Nevertheless, the existence of a conspicuous association between certain sets of social conditions and growth behaviours in regions in the UE during the 1980s, does not allow us to infer that there is a relationship between the existing social setting and long-term growth. First of all, because lack of large and more satisfactory sets of data preclude the statement of any conclusive and undisputed results. Even though -given the considerable amount of variables used in the analysis- the risk of omitted variable bias is less important than in traditional linear regression models of growth, there is no way to establish whether significant variables have been neglected. Despite the fact that the great majority of regions tend to remain within a certain cluster even if variables in the analysis are omitted or

³ Only 21 out of the 23 variables included in the data set, have been employed in the cluster analysis. The two variables indicating part time employment (the percentage of part time employment and the mean annual growth rate of part time employment) had to be excluded, because in all preliminary attempts to set up clusters, very low F values for these two indicators provoked significant increases in the variance within clusters.

changed⁴, the addition of other significant variables may provoke shifts of regions placed at the fringes of clusters, which would lead either to the reinforcement of the hypothesis or its rejection.

In second place, the lack of large time series of data is a serious handicap in order to demonstrate the existence of cause-effect links between social conditions and growth rates. As was mentioned in Chapter 1, social conditions by themselves neither provoke, nor restrain growth. They influence internal and external actors when adopting growth promoting decisions. And this process is not achieved automatically. It implies certain time lags in which actors first become aware of the social circumstances of a given place, analyze the pros and cons of initiating, continuing, or finishing growth promoting activities, make decisions and put this decisions in motion. The outcome is that the influence of the social setting on growth levels can only be discerned on a medium or long-term basis. Therefore, the use of regional data circumscribed to the 1980s indicates only a significant relationship between both factors, or even a simultaneous causation effect: as well as inherited social conditions might have wielded a meaningful effect of present growth levels, past growth rates might have influenced present levels of investment in education, improved or worsened living standards, attracted or repelled migration, or altered the labour market.

Last but not least, the use of cluster analysis techniques permits us to determine significant associations of regions having similar social conditions. But they provide no information about the actual interconnections between social conditions in those areas and economic growth.

⁴ For example, capital and urban regions, on the one hand, and a large number of intermediate dynamic regions remain in well defined clusters even if certain variables are changed. Furthermore, certain former mass production regions always share the same cluster as regions in the Italian Mezzogiorno, and Spanish peripheral less dynamic regions consistently score together with some old Fordist havens.

Table III.6

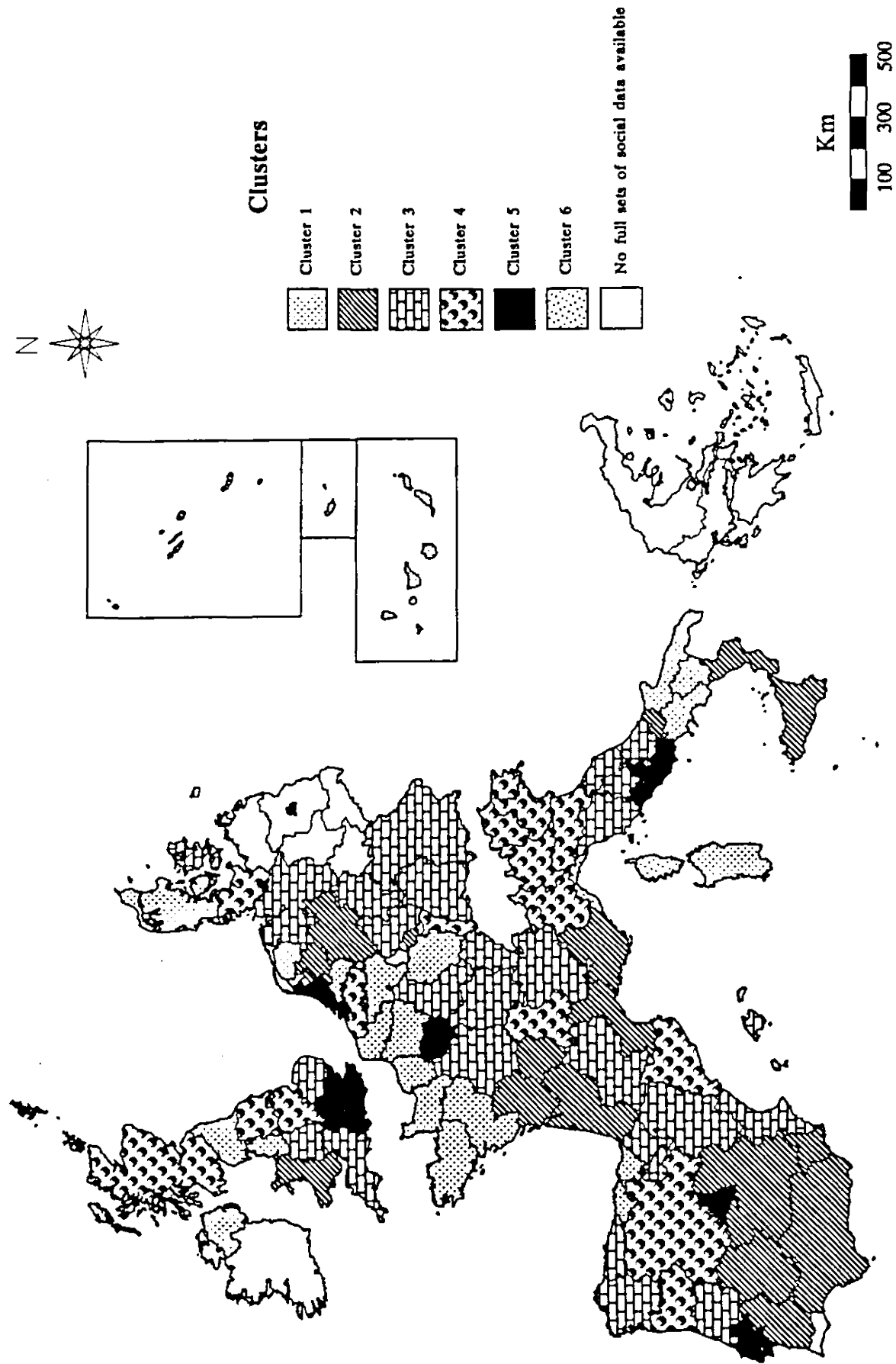
**Average Growth Level and Standard Deviation (1980-91)
of Regions Belonging to Each Cluster**

CLUSTER	Average growth EUR12=100	σ
- High performing clusters.		
· Capital regions and urban financial centres (Cluster 5).	103.74	6.97
· Intermediate dynamic and other intermediate regions (Cluster 4).	100.37	5.25
- Low performing clusters.		
· Intermediate regions (Cluster 3).	98.73	7.12
· Peripheral less dynamic and other non dynamic regions (Cluster 2).	97.66	8.13
· Former core regions undergoing industrial decline and the Italian Mezzogiorno (Cluster 1).	95.10	9.38
- Undefined cluster.		
· Corsica and Liguria (Cluster 6).	89.81	12.99

As could be expected, regional clusters identified in the analysis do not exactly reproduce the typology presented in the previous chapter, but five out of the six clusters identified make up relatively homogenous groups of regions in terms of the regional typology, and of their growth behaviours. Two of the six clusters fundamentally consist of regions with high relative levels of growth throughout the 1980s. One of these clusters corresponds to capital and urban regions, while the other comprises mainly intermediate dynamic areas (Table III.6). In the low performing section, the first cluster mainly includes both dynamic and less dynamic intermediate regions. The two other clusters in this category incorporate a large proportion of former mass production regions and peripheral areas (Table

REGIONAL CLUSTERS

Map III.7



III.6). Lastly, the final cluster is reduced to two regions, whose social conditions differ greatly from those observed in all other social sets of regions.

Clusters stemming from the analysis could be identified as follows (Map III.7):

- High performing clusters.
 - a) Capital regions and urban financial centres (Cluster 5).
 - b) Intermediate dynamic and other dynamic regions (Cluster 4).
- Low performing clusters.
 - a) Intermediate regions (Cluster 3).
 - b) Peripheral less dynamic and other less dynamic regions (Cluster 2).
 - c) Former core regions undergoing industrial decline and the Italian Mezzogiorno (Cluster 1).
- Undefined cluster.
 - a) Corsica and Liguria (Cluster 6).

III.1.3.1.- Capital regions and urban financial centres (Cluster 5).

The capital regions and urban financial centres cluster consists of 9 out of the 11 regions included in the capital and large urban regions typology set in the previous chapter. The only exception is the region around Copenhagen⁵ (since there is no complete set of social data for Athens) (Table III.7).

According to the results, the initial social conditions which relate to high growth rates in capital regions and urban financial centres were identified by above average levels of total and female activity, and fairly low youth activity in comparison to other European regions

⁵ In the case of Denmark, the small internal regional variation, we have already remarked, is heightened by the use of national means in several variables included in the analysis. This is provoked by the fact that the regional division used by the EC does not match national administrative territorial entities.

Table III.7

**Members of the Capital Regions and
Urban Financial Centres Cluster (Cluster 5)**

REGION	Mean annual rate of growth (Eur12=100)	Distance to Cluster Centre
Hamburg (D)	110.07	1.07
Lazio (I)	109.73	1.06
Madrid (E)	109.42	1.00
Île de France (F)	108.32	1.01
Lisbon and the Tagus Valley (P)	104.56	0.82
Brussels (B)	101.68	0.84
South East (UK)	101.20	0.83
Western Netherlands (NI)	100.31	0.79
Berlin (D)	88.36	1.27

(Figure III.1). During the 1980s capital and urban regions have experienced a significant stagnation in job creation. Both, global and female job creation are under the Community's average, whereas the only relative expansion is observed in youth activity rates. These trends in the growth of active population have resulted in a levelling out of differences in activity rates with the rest of the European regions. In 1990, total activity and youth activity rates were slightly below the European regional mean, while female activity barely exceeded the average.

There is no distinctive feature which characterized initial unemployment rates in these regions. In 1980 unemployment rates fluctuated around the European mean, with below average levels for total unemployment, and slightly above average rates in the case of youth unemployment in 1980 and long-term unemployment in 1990. Part-time employment and part-time employment growth are still relatively humble when compared with their share in

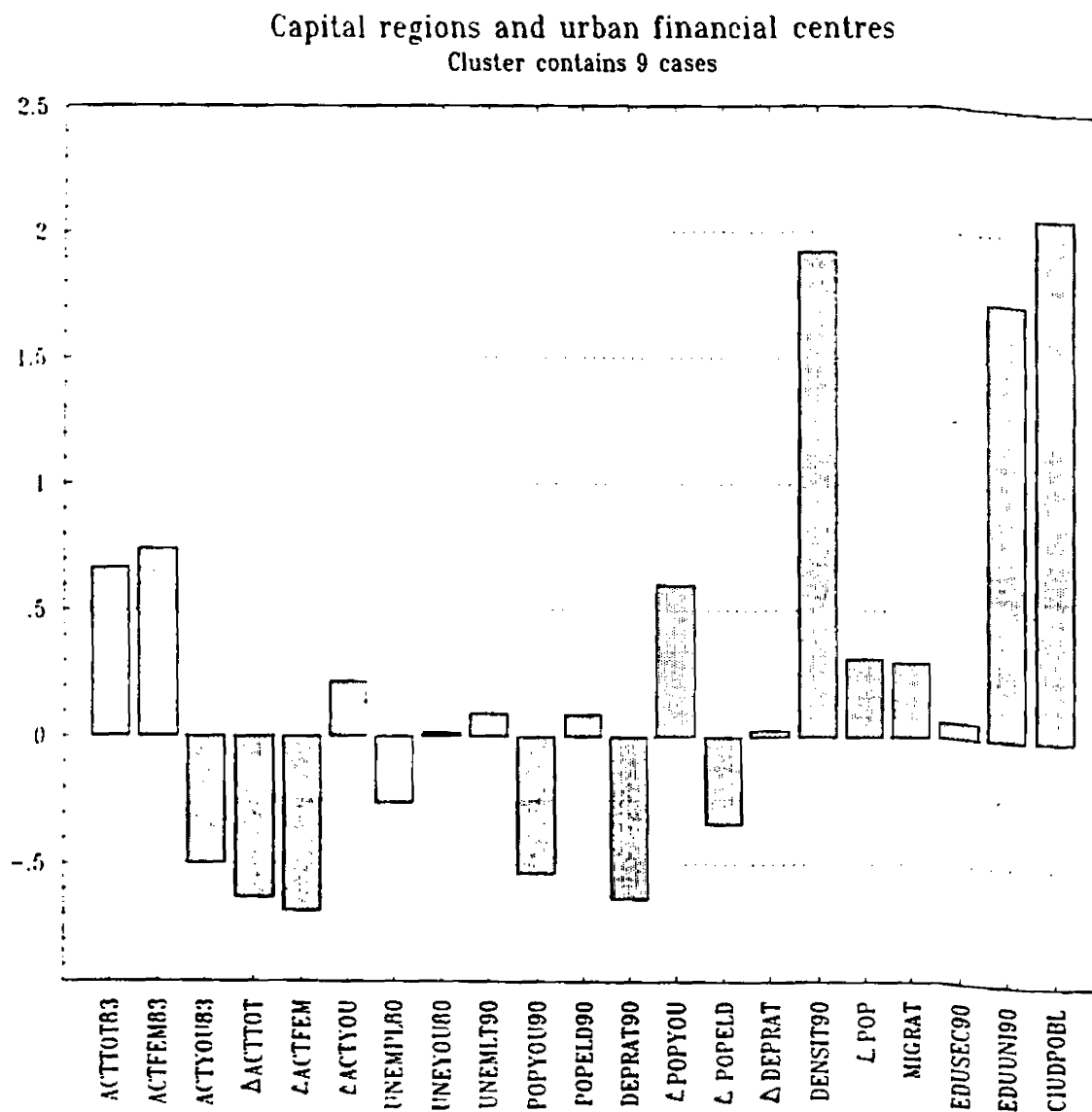


Figure III.1. Descriptive Statistics for Cluster 5.

certain intermediate and industrial declining regions.

With regard to their demographic structure, capital and urban regions have a greater proportion of adults than any other cluster. In this cluster the share of youth population is well below the EU's average, whereas the proportion of elderly population is placed slightly

above the mean. Consequently, the dependency ratio is below the European average. Moreover, capital and urban areas show a greater demographic dynamism than most other regions: the share of population of 15 and under increases at a higher pace than in any other set of regions, while growth of the elderly population is also the lowest in all clusters. Capital and urban regions have been, thus, scarcely affected by the ageing of population. Migration and population growth are both positive, as a consequence of the fact that capital and urban areas have continued exerting a distinct attraction to the population of other areas in the post-Fordist era. In a general framework of low migration during the 1980s, this group of regions has attracted more population than most other clusters.

As could be expected, the population density of capital and urban regions is well above the European mean and the urban structure of the region is completely dominated by the main metropolises. Paris, London, Madrid, Rome, Lisbon, and Brussels could be clearly identified with their regions, since changes in these metropolises affect a large area of influence, which, in some cases, expands considerably further than the limits of the administrative region. The *Länderstädte* of Hamburg and Berlin clearly comply to this rule. The only exception is the Western Netherlands, where neither Amsterdam nor Rotterdam have either the size, or the economic power to influence the rest of the region. Here the role of the metropolises is filled by a conurbation of cities which includes Utrecht, Amsterdam, the Hague, and Rotterdam: the Randstad Holland. The Randstad Holland fulfils a similar function to the one played by other European metropolises (Sachar, 1994).

Finally, although the percentage of population enrolled in secondary education is around the European mean, university education is well above the Community's average. Such a sharp contrast can only be explained by the attraction of University centres in capital areas for students from neighbouring, as well as, far away zones. This implies a higher level of qualification of the inhabitants of core regions, since a large percentage of the population moving from other regions to study does not return to their zones of origin.

In brief, capital regions display a fairly dynamic social panorama characterized by a high level of qualification of the population, positive rates of population growth and high population attraction, low demographic dependency and unemployment, and a fuller integration of females in the labour market. Regions included in this cluster experienced the highest rate of growth during the 1980s.

III.1.3.2.- Intermediate dynamic and other dynamic regions (Cluster 4).

Cluster 4 contains 17 regional cases, which include a large proportion of the intermediate dynamic regions, several intermediate less dynamic, and isolated cases of peripheral (Castile and León in Spain, and the North of Portugal), and industrial declining regions (Piedmont in Italy, and Yorkshire and Humberside in the United Kingdom). Regions in this cluster comprise some of the most economically dynamic areas in the European Community, such as the North of Portugal, Friuli-Venezia Giulia, Catalonia, Veneto, and Flanders. This economic dynamism is reflected in an average rate of growth second only to capital and urban regions (Table III.8).

The economic dynamism of these regions is matched by a similarly dynamic social panorama (Figure III.2). Total, female and youth activity in 1983 were well above the European average, reaching levels comparable to those attained in other intermediate dynamic regions, and only second in terms of total and female activity rates to those found in capital regions and urban financial centres. Nevertheless, these ideal initial conditions in labour activity have not been matched by a favourable relative evolution in terms of growth of activity rates. Whereas total and female activity rates have experienced moderate increases, the growth of youth activity is well below the European average.

Initial unemployment indicators also displayed an advantageous panorama. Total, youth and long-term unemployment rates are low in comparison to other clusters. These high levels of employment throughout the period of analysis can only be compared to those of the

Table III.8

**Members of the Intermediate Dynamic and
other Intermediate Regions Cluster (Cluster 4)**

REGION	Mean annual rate of growth (Eur12=100)	Distance to Cluster Centre
North of Portugal (P)	108.56	0.61
Friuli-Venezia Giulia (I)	105.89	0.71
Catalonia (E)	105.58	0.50
Veneto (I)	104.78	0.58
Flanders (B)	103.96	0.61
Trentino-Alto Adige (I)	102.29	0.68
Auvergne (F)	102.22	0.63
Scotland (UK)	101.19	0.90
Valle d'Aosta (I)	100.96	0.98
East Midlands (UK)	100.79	0.52
Piedmont (I)	99.72	0.57
Alsace (F)	99.54	1.05
Lombardy (I)	99.40	0.56
Yorkshire and Humberside (UK)	96.33	0.50
Emilia-Romagna (I)	94.76	0.62
Schleswig-Holstein (D)	93.22	0.63
Castile and León (E)	87.17	0.73

other intermediate regions of cluster 3.

The demographic scene is characterised by the prevalence of adult population. The share of population of 15 and under is significantly below the European average, whereas the proportion of elderly population close to the levels found in other parts of Europe. The dependency ratio is thus the lowest in all clusters. During the 1980s, the relative growth of elderly population has clearly outstripped that of the young, resulting in a considerable

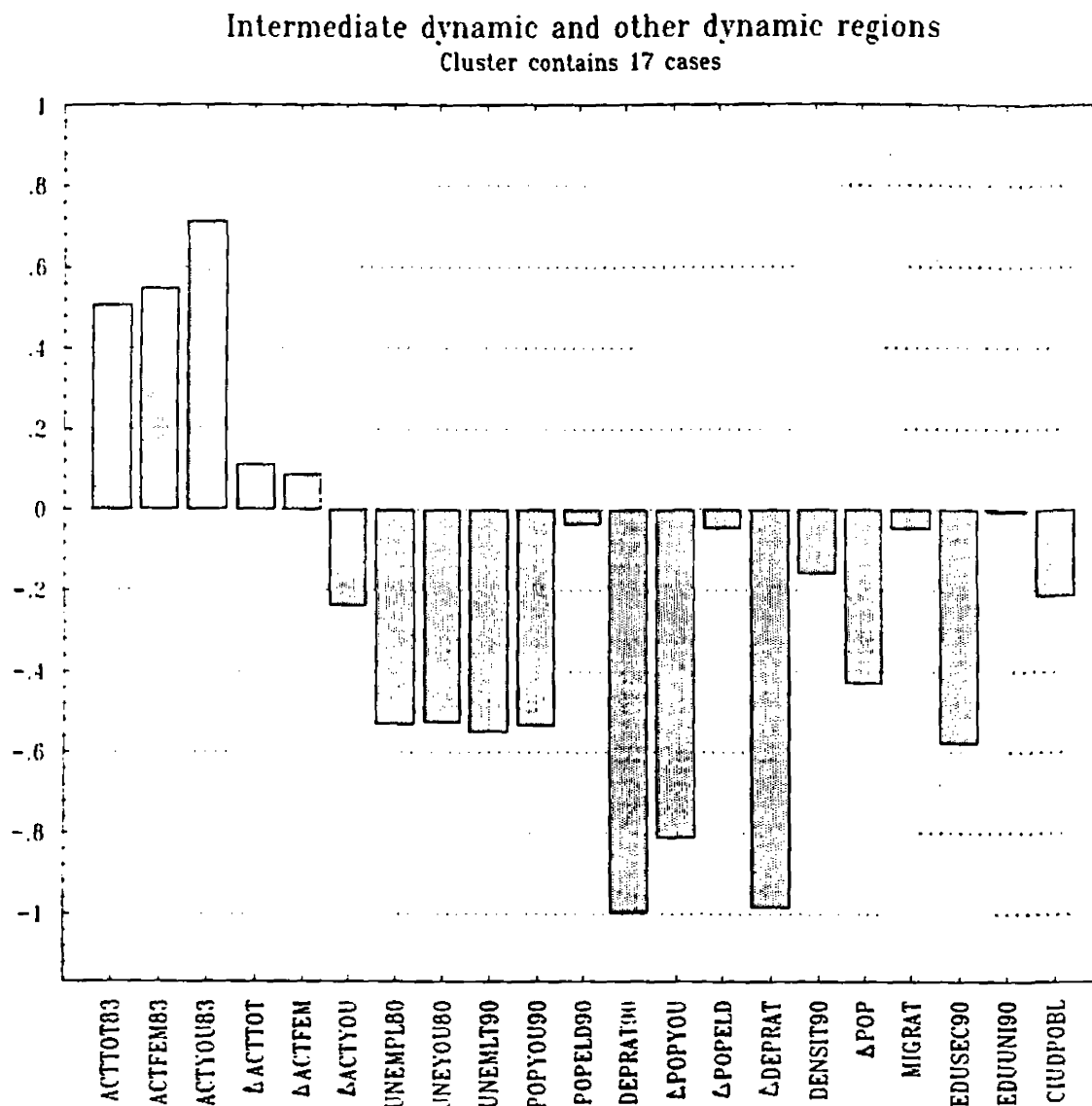


Figure III.2. Descriptive Statistics for Cluster 4.

increase of the adult population, and a relative decline in the dependency ratio. As a consequence, the regions included in this cluster show almost no signs of an ageing of the population.

These intermediate dynamic and other dynamic regions have experienced no significant deviation from the mean in terms of inward migration, although total population growth has remained below the European average.

Lastly, and contrary to what might be expected given the relatively high growth levels of these areas, educational conditions in this group are not advantageous. University and, above all, secondary school enrolment are neatly below the European average. This fact represents a clear contrast with levels of educational enrolment in other well-off regions, namely with the cluster of capital and urban financial centres. Nevertheless, as in the case of the regions in the previous cluster, universities included in this group exert a fairly strong attraction on students from other areas.

III.1.3.3.- Intermediate regions (Cluster 3).

Cluster 3, with 28 cases, is the largest cluster stemming from the analysis. More than three fourths of the regions included in the cluster are intermediate dynamic and less dynamic areas. The other fourth is made up of two peripheral less dynamic regions (Galicia, and the Centre of Portugal), one peripheral dynamic (Abruzzi), one capital area (the region around Copenhagen), and one industrial declining region (Asturias).

The mean average annual growth rate of regions included in this cluster is slightly lower than the mean growth rate of regions in the previous cluster (*vid.* Table III.6). This fact is mainly the result of the prevalence of intermediate less dynamic over intermediate dynamic regions within the cluster (Table III.9). Moreover, social conditions display a fairly different profile with respect to the conditions observed in the cluster of intermediate dynamic and other dynamic regions.

The only social aspects that regions encompassed in this cluster and regions in the previous cluster share in common are labour activity indicators and unemployment indicators

Table III.9

Members of the Intermediate Regions Cluster (Cluster 3)

REGION	Mean annual rate of growth (Eur12=100)	Distance to Cluster Centre
Hesse (D)	112.34	0.48
Midi-Pyrénées (F)	109.54	0.51
Balearic Is. (E)	109.16	1.08
Bavaria (D)	108.81	0.60
East Anglia (UK)	106.85	1.00
Aragón (E)	105.03	0.75
South West (UK)	104.71	0.80
Abruzzi (I)	104.24	0.66
Valencia (E)	100.38	0.47
Hovedstadsregionen (Dk)	100.36	0.41
Lower Saxony (D)	100.07	0.61
Baden-Württemberg (D)	100.01	0.69
Navarre (E)	98.90	0.75
West Midlands (UK)	98.27	0.53
Centre (F)	98.22	0.40
Rhône-Alpes (F)	97.99	0.70
Burgundy (F)	97.26	0.57
Franche-Comté (F)	96.99	0.61
Marche (I)	96.85	0.52
Tuscany (I)	96.37	0.70
East of the Great Belt (Dk)	95.68	0.46
Champagne-Ardenne (F)	93.51	0.88
Rhineland-Palatinate (D)	92.22	0.61
Umbria (I)	91.56	0.56
Galicia (E)	88.52	1.09
Centro (P)	87.96	0.51
Rioja (E)	87.44	0.68
Asturias (A)	85.25	1.10

(Figure III.3). In both cases, initial labour activity rates are clearly above the European regional average. However the expansion of the labour market in this cluster during the 1980s has been less evident than in intermediate dynamic regions. Activity rates, in general, and youth activity rates, in particular, experience below average growth levels.

The unemployment panorama in these areas at the beginning of the period was the most favourable of all clusters. Total and youth unemployment rates in 1980 were, in most cases, several points below the European average. The same happened with long term unemployment levels at the end of the decade. Regions included in this cluster thus had a large employed population.

Demographic dynamism is clearly the social factor which separates one cluster from the other. Whereas in the cluster of intermediate dynamic and other dynamic regions, there was no sign of an ageing of the population, high dependency rates and ageing have become the most significant features in the demographic panorama of regions within this cluster. Youth contingents were in 1990 below the European average, and the percentage of people of 65 and over was clearly above that of the rest of Western Europe. Moreover, youth population had stagnated during the 1980s, while the segment of elderly population registered a clear expansion; young cohorts are losing ground to older ones, and inverted demographic pyramids are increasingly becoming a common feature.

In addition, ageing in several of the regions included in this cluster, such as East Anglia, the South West of England, the Balearic Islands and Valencia is not only a consequence of natural demographic reasons (an unbalanced demographic structure, or very low regional fertility rates). It is, in fact, closely related to the capacity of these areas to attract pensioners and elderly population from other regions.

Regions in this cluster have experienced relatively moderate population increases; a result of inward migration during the 1980s. A large percentage of the demographic

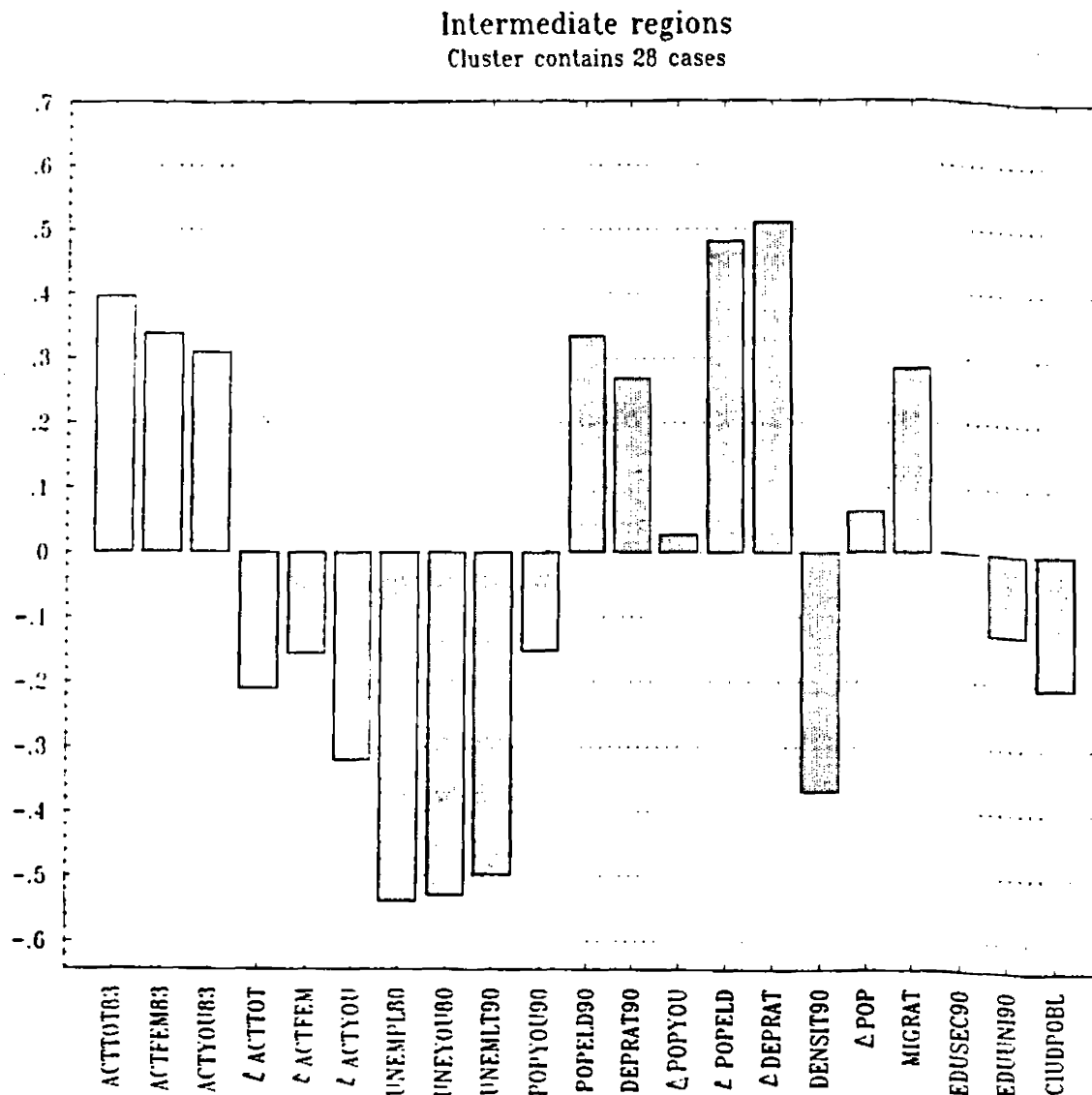


Figure III.3. Descriptive statistics for cluster 3.

expansion is caused by the migration of elderly people, but also of young adults and professionals, who increasingly chose these areas either according to the quality of living standards and closeness to large urban areas, in the cases of East Anglia, the South West of England, and the East of the Great Belt; for their economic dynamism, as in Hesse, or

Bavaria; or for the quality of the environment and job opportunities in an expanding tourist sector, as in the case of the Balearic Islands (*vid.* Map III.6).

Educational enrolment levels are slightly below the European average. There is a relative shortage of university students, with respect to both capital regions and urban financial centres, on the one hand, and intermediate dynamic regions, on the other. This implies that a certain percentage of the student population stemming from these regions enrolls in universities of more developed areas.

III.1.3.4.- Peripheral less dynamic and other less dynamic regions (Cluster 2).

The main common feature of the 19 regions included in this cluster is their scarce economic dynamism throughout the 1980s. Alongside with several peripheral less dynamic regions (Calabria and Sicily, in Italy, Alentejo and Azores in Portugal, and Andalusia, Castile-La Mancha, Extremadura, in Spain), this group comprises industrial declining regions (Wallonia, North Rhine-Westphalia, Saarland, and Wales), four intermediate less dynamic regions located mainly in the Southern France (Poitou-Charentes, Limousin, Languedoc-Rousillon, and Provence-Alpes-Côte d'Azur), and a few dynamic regions (Aquitaine, the Eastern Netherlands, Molise, and Murcia). Average growth in this cluster is 2.5 points below the European regional mean, but important internal differences are observed within the cluster (Table III.10). Almost half of the regions display above average or average growth rates during the 1980s, whereas very low levels of growth characterize other regions like Wallonia, North Rhine-Westphalia, Provence-Alpes-Côte d'Azur, and Alentejo. Nevertheless, growth rates in most regions encompassed in this cluster oscillate within the limits of ± 5 percentage points around the mean.

Global social conditions depict a fairly dissimilar panorama to the ones observed in the capital regions and urban financial centres cluster, and in the two intermediate regions clusters. These differences are observed in most social realms (Figure III.4).

Table III.10

**Members of the Peripheral Less Dynamic and
Other non Dynamic Regions Cluster (Cluster 2)**

REGION	Mean annual rate of growth (Eur12=100)	Distance to Cluster Centre
Murcia (E)	104.82	0.82
Aquitaine (F)	103.92	0.64
Eastern Netherlands (NL)	103.74	0.71
Extremadura (E)	103.27	0.72
Wales (UK)	102.67	0.51
Molise (I)	101.91	0.66
Limousin (F)	100.91	0.86
Poitou-Charentes (F)	100.57	0.51
Saarland (D)	100.50	0.92
Languedoc-Roussillon (F)	99.73	0.98
Sicily (I)	98.69	0.68
Andalusia (E)	97.86	0.61
Calabria (I)	97.81	1.00
Castile-La Mancha (E)	97.58	0.85
Wallonia (B)	92.68	0.54
North Rhine-Westphalia (D)	91.12	0.52
Provence-Alpes-Côte d'Azur (F)	89.91	0.73
Alentejo (P)	70.08	0.98
Azores (P)		0.80

The labour market realm was characterized by very negative conditions at the beginning of the decade. Total and female activity rates were the lowest in all clusters (bar the undefined cluster of Corsica and Liguria), and the share of active population of 25 and less was in these regions also among the lowest in Europe. Sharp increases in all groups of active population during the 1980s have not sufficed to fill in the gap.

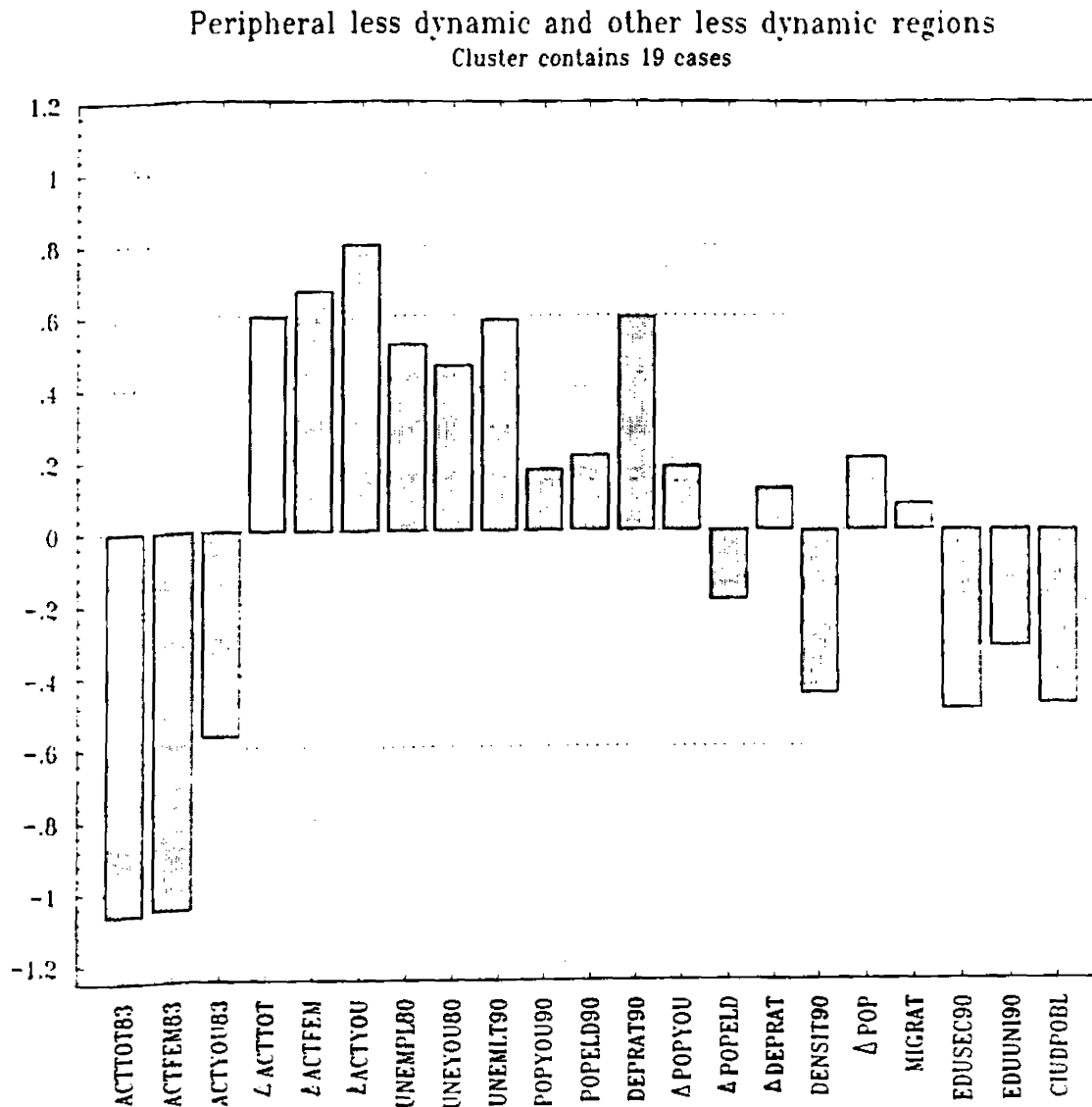


Figure III.4. Descriptive statistics for cluster 2.

Low levels of active population did not imply lower unemployment rates than in other European regions. Total and youth unemployment were not only high at the beginning of the period, but they have also remained well above the European average throughout the whole decade. Long term unemployment is also fairly high in comparison with other European areas. Low activity rates and high unemployment result in extremely weak employment

levels. The share of the total population engaged in productive activities is thus the lowest in all groups of regions.

The demographic realm shows a greater dynamism than the make-up of the labour market. High dependency ratios in 1990 are the consequence of above average relative rates of young and elderly population. There is, however, little sign of ageing in these regions. In the 1980s there has been a relative decrease in the share of the population of 65 and over with respect to the 1960s and 1970s. In the previous decade, outward migration by young adults had provoked imbalances in the age structure. Return migration and fertility rates among the highest in Europe during the 1980s have brought about a certain degree of rejuvenation of the age structure of the population. The youngest population cohorts have expanded, while there has been a relative reduction of the share of elderly population.

This natural demographic dynamism, together with return migration and increasing numbers of immigrants seeking milder all year round climates and better environmental conditions in certain regions in the cluster (Andalusia, Alentejo, Azores, Languedoc-Rousillon, Provence-Alpes-Côte d'Azur, and, to a lesser extent, Sicily), are the reasons for the relatively high population growth in a period of demographic stagnation.

Educational enrolment levels are poor. Both secondary school and university enrolment rates are very low in comparison to those found in the capital regions and urban areas cluster, and even in some industrial declining regions. They resemble more closely those observed in intermediate regions.

III.1.3.5.- Former core regions undergoing industrial decline and the Italian Mezzogiorno (Cluster 1).

Although, economically speaking, the former core regions undergoing industrial decline and the Italian Mezzogiorno share little in common aside from declining growth rates,

their social structures are similar, when considered within their national context. Cluster 1 contains 22 cases which include several of the mass production havens, such as Bremen, the Basque Country, Cantabria, Picardy, Upper Normandy, Lower Normandy, Nord-Pas de Calais, Lorraine, the Northern Netherlands, and the North and the North West of England, four out of the eight regions of the Italian Mezzogiorno⁶. Alongside with these two groups, we find isolated cases of regions belonging to other groups but sharing a similar social structure and moderate and low growth rates in recent years (Pays de la Loire, Brittany, and Northern Ireland), and a few well performing areas (the Canary Is., the Southern Netherlands, and the West of the Great Belt) (Table III.11).

The labour realm in this cluster is dominated by average total and female activity rates at the beginning of the period, and relatively low initial youth unemployment rates (Figure III.5). Industrial and agricultural crises have prevented social groups from entering the labour market, and total, female and youth activity have suffered a steep decline. As a consequence, the labour market panorama is now gloomier than it was at the beginning of the 1980s. The percentage of female and youth active population at the beginning of the 1990s was, in most cases, among the lowest in the EC.

As a consequence of the aforementioned crises, the percentage of jobless reaches its peak in this cluster, with a strong incidence of problems like youth and long-term unemployment, which have remained consistently high since the beginning of the crisis of the model of mass production. Part-time work is at the European mean and has increased slightly above the average in the past decade.

The population structure of these areas is dominated by the young and adult groups. The percentage of elderly population is still very low in the European context. This structure results in an above average demographic dependency ratio. Changes in population structure

⁶ The Italian Mezzogiorno traditionally includes the regions of Abruzzi, Calabria, Campania, Molise, Puglia, Sardinia, and Sicily.

Table III.11

**Members of the Former Core Regions Undergoing Industrial Decline
and the Italian Mezzogiorno Cluster (Cluster 3)**

REGION	Mean annual rate of growth (Eur12 = 100)	Distance to Cluster Centre
Canary Is. (E)	120.02	0.87
Southern Netherlands (NI)	118.50	0.79
Campania (I)	104.78	0.96
West of the Great Belt (Dk)	102.90	0.49
Bremen (D)	102.65	0.89
Puglia (I)	100.62	0.66
Sardinia (I)	100.48	0.84
Pays de la Loire (F)	99.33	0.51
Northern Ireland (UK)	99.00	1.30
Brittany (F)	98.50	0.70
Lower Normandy (F)	98.05	0.91
North (UK)	94.12	0.81
North West (UK)	93.74	0.69
Basilicata (I)	91.97	0.71
Upper Normandy (F)	91.49	0.64
Basque Country (E)	90.83	0.76
Nord-Pas de Calais (F)	87.80	0.61
Cantabria (E)	85.65	0.76
Picardy (F)	82.81	0.55
Lorraine (F)	81.74	0.80
Northern Netherlands (NI)	64.67	0.85
Madeira (P)		0.75

during the 1980s have been favourable to these regions. Youth population has grown above average, and the problem of ageing is still relatively modest, primarily in the Italian Mezzogiorno, the area of the Western Europe which -despite the decline in fertility in recent years- shows, together with the Republic of Ireland, less signs of a demographic crisis.

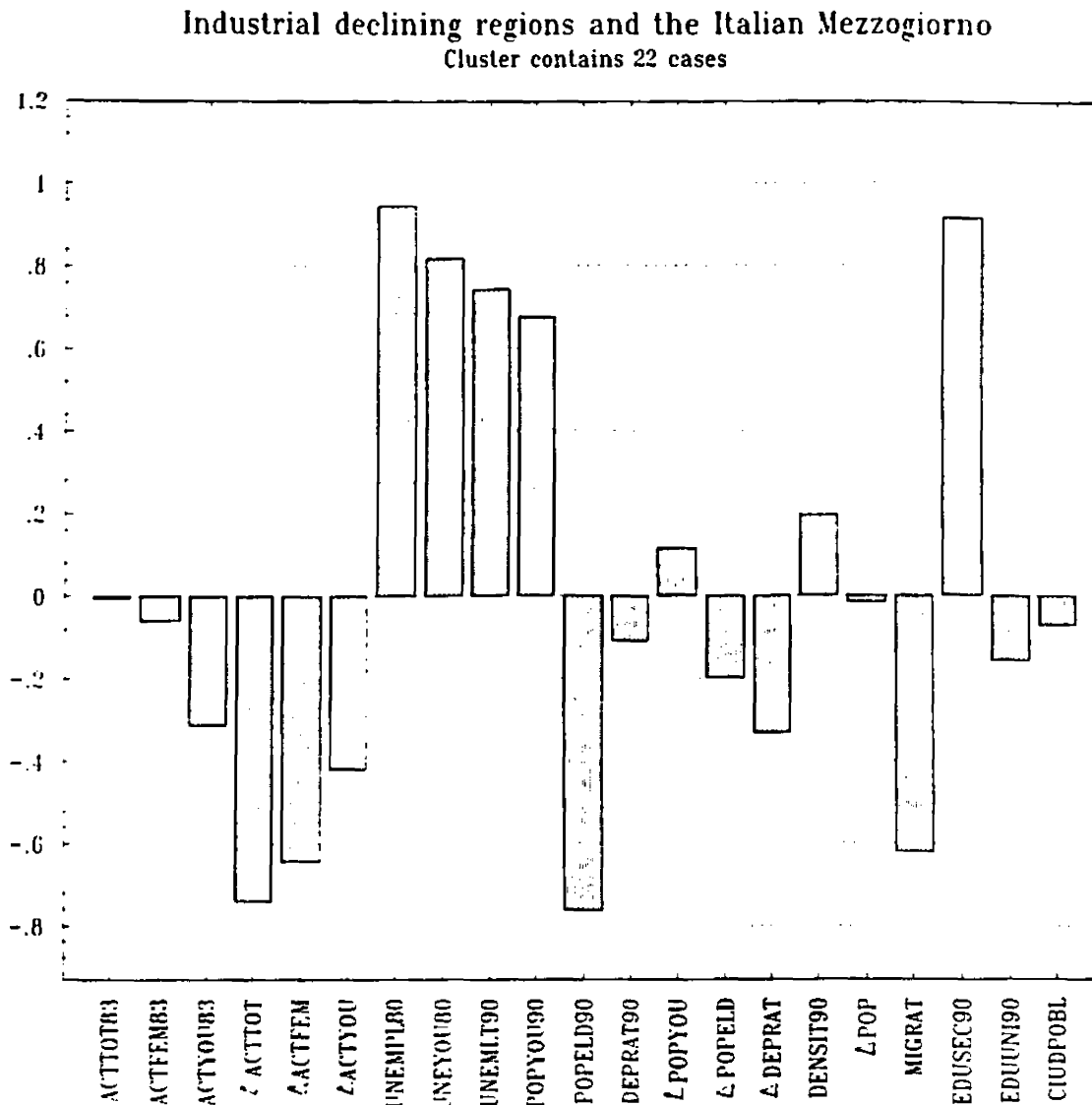


Figure III.5. Descriptive statistics for cluster 1.

However, this favourable demographic structure might become an additional burden in times of recession. Youngsters trying to enter the labour market find no other outlet than to become unemployed or to migrate to neighbouring zones. Migration rates during the 1980s, although moderate in absolute numbers, reach the highest levels in the regions included in this cluster. As a consequence, population growth -in spite of a very favourable age structure and

relatively high fertility and birth rates- is slightly below the European average. Outward migration from these areas is mainly two directional: on the one hand, an outflow of labour towards intermediate and, to a lesser extent, capital regions and, on the other, students enrolling in universities in capital regions.

The outflow of college students towards central areas is clearly exemplified by the situation of the educational sector. The extremely high levels of secondary school enrolment in these regions are not matched by equal numbers of university students. This reflects the scarcity and lack of appeal of local universities in contrast with other educational centres located in central and even some intermediate regions. University students from regions undergoing industrial decline and the Mezzogiorno find an outlet in other universities. Or, what is even worse, well prepared secondary school and university graduates, finding no jobs in the former Fordist havens and in the Mezzogiorno, decide to begin their working life in other areas. Hence, many regions in this cluster bear the costs of a large segment of the education of the individuals and obtain almost no returns in productive activity. This fact is curtailing local capabilities of growth in the long-run.

In brief, former Fordist core areas and the Mezzogiorno display negative social conditions in all fields, with the exception of demographic structure. Under these circumstances growth potential is weakened both on the medium and long-run, and, therefore, average growth rates in the regions included in this cluster during the 1980s are well below the mean of the EU.

III.1.3.6.- The undefined cluster: Corsica and Liguria (Cluster 6).

Extreme social conditions in Corsica and Liguria with respect to the European context, isolate these two areas from all other regions included in the analysis.

Table III.12

Members of Corsica and Liguria Cluster (Cluster 6)

REGION	Mean annual rate of growth (Eur12=100)	Distance to Cluster Centre
Liguria (I)	99.00	0.86
Corsica (F)	80.62	0.86

Low growth levels in these two regions during the 1980s and early 1990s are associated with unfavourable circumstances in almost all social fields (Table III.12). The start-up situation in terms of labour activity was characterized by extremely low rates of total and female active population, which greatly contrasted with high youth activity. Rapid relative growth of total, female and, to a lesser extent, youth active population has nevertheless been insufficient to fill in the activity gap, which separates these two regions from regions included in the other clusters (Figure III.6).

In contrast to what was observed in cluster 2, initial low rates of active population were not paralleled by similar high unemployment levels. Total and youth unemployment in 1980 ranked amongst the lowest in Europe, although the evolution of unemployment during the 1980s in both regions was divergent: low growth in Liguria, and high in Corsica.

From a demographic point of view, these two regions are affected by a deep process of ageing. Not only the share of population of 15 and less is the lowest in all clusters, but also the percentage of the elderly population is clearly above that found in any other cluster. During the last decade the process of ageing has been aggravated by a marked decline in the share of young population and an considerable increase of the elderly. The ageing of the population, together with declining fertility and birth rates has contributed to a significant

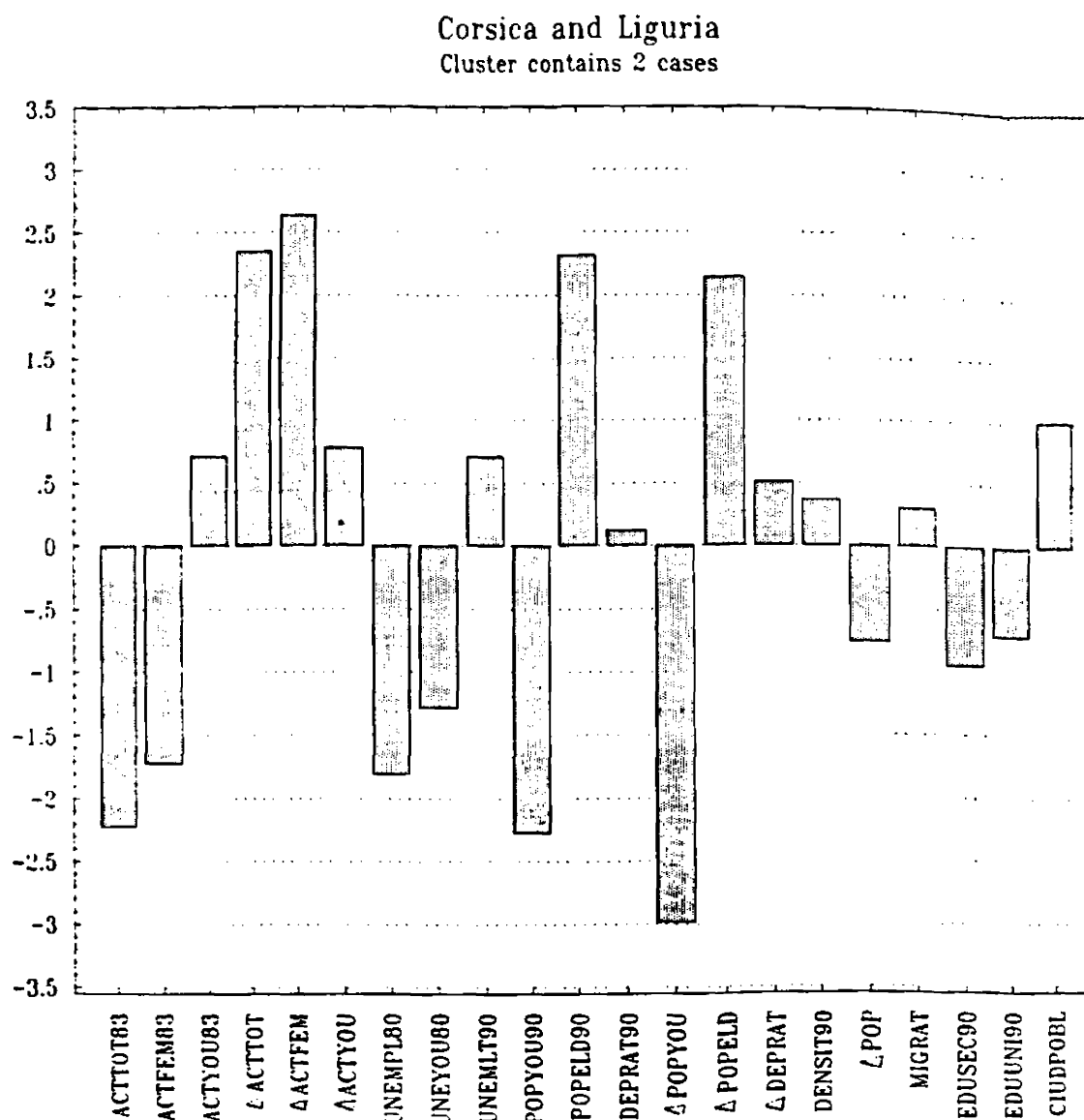


Figure III.6. Descriptive statistics for cluster 6.

relative loss of population with respect to other European regions. Positive balances in migration, provoked mainly by pensioners attracted by the appeal of some of the tourist resorts in these regions as ideal centres to spend their old age, has not sufficed to curb this declining trend.

Educational enrolment and attainment conditions portray a similarly adverse picture. Secondary school and university enrolment levels are well below the European average, a factor which in the medium and long run represents a shortage of qualified human resources with respect to neighbouring regions.

III.1.4.- THE LINK BETWEEN SOCIAL CONDITIONS AND ECONOMIC GROWTH.

The preceding cluster analysis has revealed a strong connection between sets of social conditions and economic growth trends in different areas of the EC. Generally speaking and in spite of significant exceptions, regions with similar growth rates since the beginning of the process of socio-economic restructuring tend to share a similar social make-up. This fact serves to confirm the hypothesis of the important connection between sets of social conditions and economic growth.

But, as was mentioned in Chapter I, not all social factors have an equal correlation with growth, and more importantly, the time influence of social factors on growth differs greatly. It is logical to think that the association between labour market conditions and unemployment levels will be revealed in a shorter span of time than that of demographic circumstances or educational attainment. The link between labour market structure and growth thus could be noticed in the early medium-term. How the labour market in a given area reacts to changes and adapts to new situations may result in higher or lower rates of growth within a few years.

The relationship between educational attainment and growth comes next. Investment in education, greater school enrolment, and the reinforcement of the skills and capacities of the population would only imply returns in terms of growth on a medium-run basis. Training present and future workers is a task which will only result in enhanced productivity, and thus in greater growth when the acquired skills can be usefully applied in the labour market. And

this might happen, in the best case, within a year time, but the whole process of education, entering the labour market, and application of skills might be prolonged for several years or even decades.

Finally, the association between demographic structure and growth levels can only be unveiled on the long medium and long-terms. Changes in the age structure of population only have noticeable effects on the economy from one generation to the other.

If the association of different social factors with growth rates is not homogenous in time, and the analysis described above was conditioned by the lack of long series of regional data, which of the groups of social variables is more responsible for the formation of regional social clusters which relate to growth levels?

In the way it is structured, the foregoing analysis denotes a significant association between certain sets of social conditions and growth during the 1980s. However, it provides little information on the nature of the relationship between the groups of social factors included in the analysis (activity rates, unemployment, demography, population change, and educational enrolment) and growth, or how social conditions influence growth. Nevertheless, the analysis of variance confirms that certain sets of social factors have a greater sway in the formation of clusters. In first place, the structure of the labour market (activity rates and unemployment rates) has the greatest influence in the formation of clusters. Education and the urban structure occupy the second spot. The influence of the demographic structure and population change is less evident in this time scale. F values confirm this relation and the theoretical construction outlined above (Table III.13). F values concerning the structure of the labour market are, in general, slightly higher than in variables regarding demographic structure, educational enrolment rates or population change. In turn, F values of educational enrolment are higher than those of demographic structure, and these exceed those of population change.

Table III.13

ANALYSIS OF VARIANCE

crossprd Variable	Between SS	df	Within SS	df	F	signif. p
ACTTOT83	44.155	5	41.946	91	19.158	.0000
ACTFEM83	40.187	5	46.270	91	15.807	.0000
ACTYOU83	22.909	5	63.090	91	6.608	.0000
ΔACTTOT	33.911	5	47.372	91	13.028	.0000
ΔACTFEM	36.343	5	52.836	91	12.518	.0000
ΔACTYOU	21.456	5	68.799	91	5.676	.0001
UNEMPL80	44.926	5	43.658	91	18.728	.0000
UNEYOU80	34.630	5	54.025	91	11.666	.0000
UNEMLT90	31.429	5	52.395	91	10.917	.0000
POPYOU90	28.843	5	58.001	91	9.050	.0000
POPELD90	27.566	5	60.952	91	8.231	.0000
DEPRAT90	29.326	5	56.139	91	9.507	.0000
ΔPOPYOU	32.694	5	53.367	91	11.149	.0000
ΔPOPELD	18.012	5	70.647	91	4.640	.0008
ΔDEPRAT	26.576	5	61.326	91	7.887	.0000
DENSIT90	42.551	5	43.953	91	17.619	.0000
ΔPOP	6.065	5	79.131	91	1.395	.2335
MIGRAT	11.832	5	71.740	91	3.001	.0148
EDUSEC90	30.726	5	56.079	91	9.971	.0000
EDUUNI90	30.853	5	55.499	91	10.117	.0000
CIUDPOBL	47.413	5	41.374	91	20.856	.0000

This implies that, for relatively short periods of time such as the one we are analyzing, the social bases of economic growth have to be searched for mainly in the interplay between labour market conditions and educational attainment. The influence of the demographic structure and its changes is perceived on a longer time scale, whereas the relationship between population change and economic growth is relatively limited⁷ in the

⁷ With the exception of the percentage of youth and elderly population.

The socio-political bases of regional growth...

short and early medium terms. In the following pages, I will try to determine more in detail, using a linear regression analysis (to the extent to which existing data allows), what is the connections between two of the aforementioned factors (labour market structure and conditions, and educational attainment) and regional growth during the 1980s.

III.2.- LABOUR MARKET CONDITIONS AND GROWTH.

One of the most significant features highlighted in the cluster analysis is the uncommon relationship between labour activity and labour activity growth, on the one hand, and economic growth, on the other. In the light of the results of the cluster analysis, it becomes difficult to associate activity and changes in activity with growth performance, despite the fact that F values concede activity indicators a prominent significance in the formation of clusters. Capital and urban regions grow fast in the European context, in spite of moderate levels of activity growth. Industrial declining regions and the Italian Mezzogiorno exhibit low activity rates and below average economic growth. Intermediate regions fare better in terms of labour activity, but this fact is not translated into higher growth rates than in capital areas. Therefore, this evidence suggests that job creation in a period of high unemployment and restricted inlets into the labour market represent different things in core and in declining areas. Consequently, only an in depth analysis of the labour market and its sectoral structure -and mainly of the evolution of the tertiary sector, since employment in agriculture and traditional industry is undergoing a deep crisis- is likely to shed some light on the complex question of the relationship between job creation and economic growth.

III.2.1.- CHANGES IN THE STRUCTURE OF THE LABOUR MARKET AND GROWTH.

Several recent theories have embraced the idea that sectoral change linked to the process of socio-economic restructuring has brought the service sector to the fore as the motor of growth and that, in the light of the recession of job creation in the primary and secondary economies, newly performing economies are those distinguished by an expanding service sector. Many authors have claimed that, in recent years, the service sector is playing a much more active and dynamic role, and becoming, thus, the main basis for economic

growth (Riddle, 1986; Ochel and Wegner, 1987; Nusbaumer, 1987a and 1987b; Grubel and Walker, 1989; Marshall and Wood, 1992).

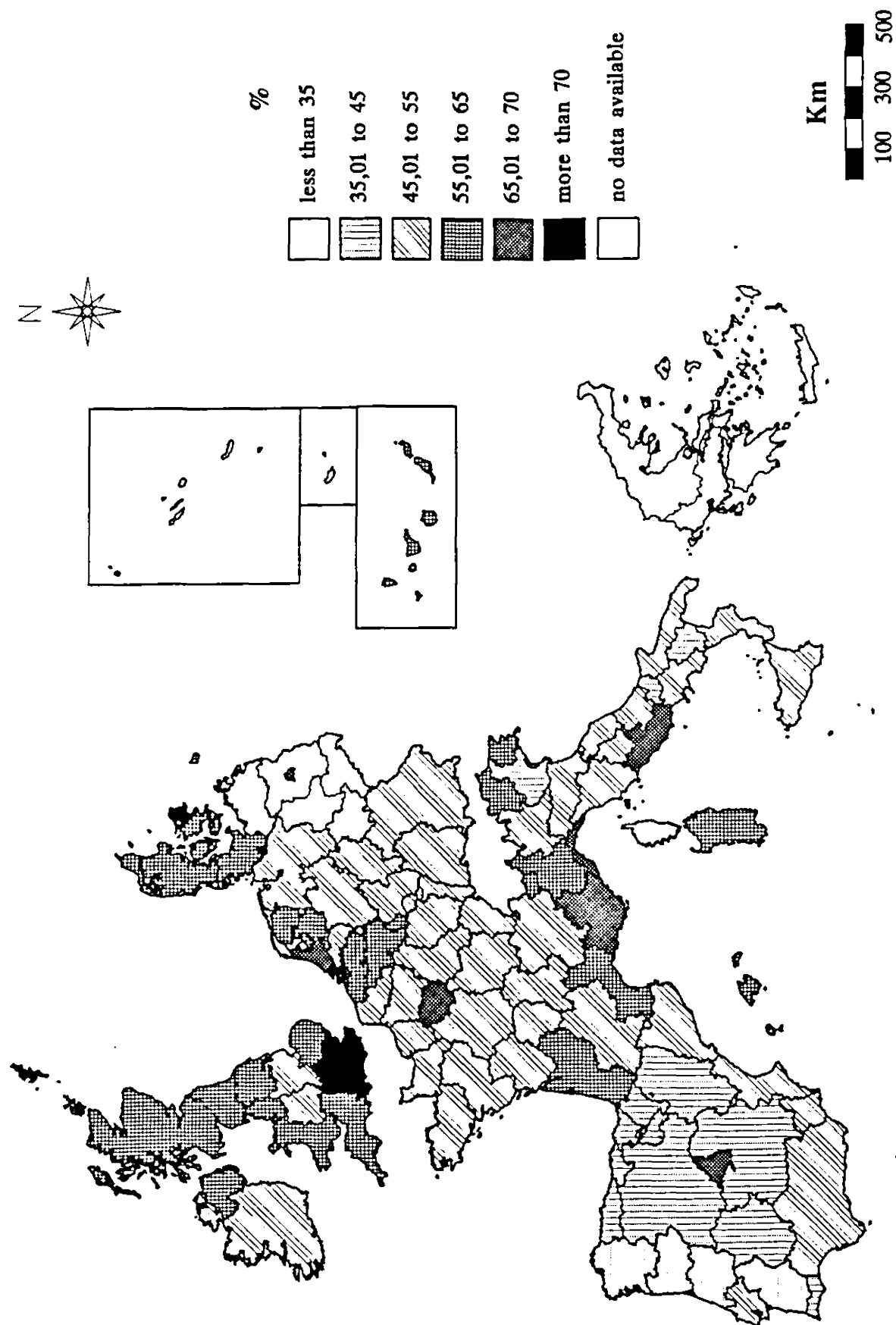
However, even if it is true that the service sector has experienced the greatest expansion in terms of employment growth and is, thus, the main catalyst for increases in activity during the 1980s, this expansion -where it has been achieved- has not been paralleled by similar rates of economic growth (Rodríguez-Pose, 1994). Therefore, a more sceptical attitude towards the role played by the service sector in economic growth, in particular, and by shifts in economic activity, in general, should be adopted.

A possible explanation of the lack of association between the growth in employment in the service sector and economic growth in economically advanced societies, can be found in the following argument: even if there is a clear relationship between a certain type of advanced services (e.g. services to industries, financial and real estate services, services of credit and insurance institutions) and increases in productivity, territorially speaking, these highly performing subsectors are the exception and not the rule. They have mainly made progress in key capital and financial areas: the South East of England, Île de France, Hesse, Hamburg, Brussels, Madrid or the Lazio, most of them located in the cluster of capital regions and urban financial centres. These are regions which in the early stages of the transformation from an industrial to a post-industrial society, already enjoyed an advanced service sector (Maps III.8 and III.9). Nevertheless, it is precisely in these areas where the lowest job creation in the service sector has been achieved during the last decade. In all of them the employment in services has grown below the European average. In the area of Copenhagen, the Western Netherlands, the South East of England, and Brussels the annual rate of growth of employment in services is not in excess of 0.5%. In the cases of Hesse, Hamburg, Madrid or the Île de France, the limit is placed at 1 %. Only Lazio and the region around Lisbon exceed this barrier, since they are both placed in national settings of high growth of the participation of the tertiary sector in employment. Other fast growing regions like East Anglia, the South West of England, the West of the Great Belt, and the Southern

EMPLOYMENT IN THE SERVICE SECTOR

1980

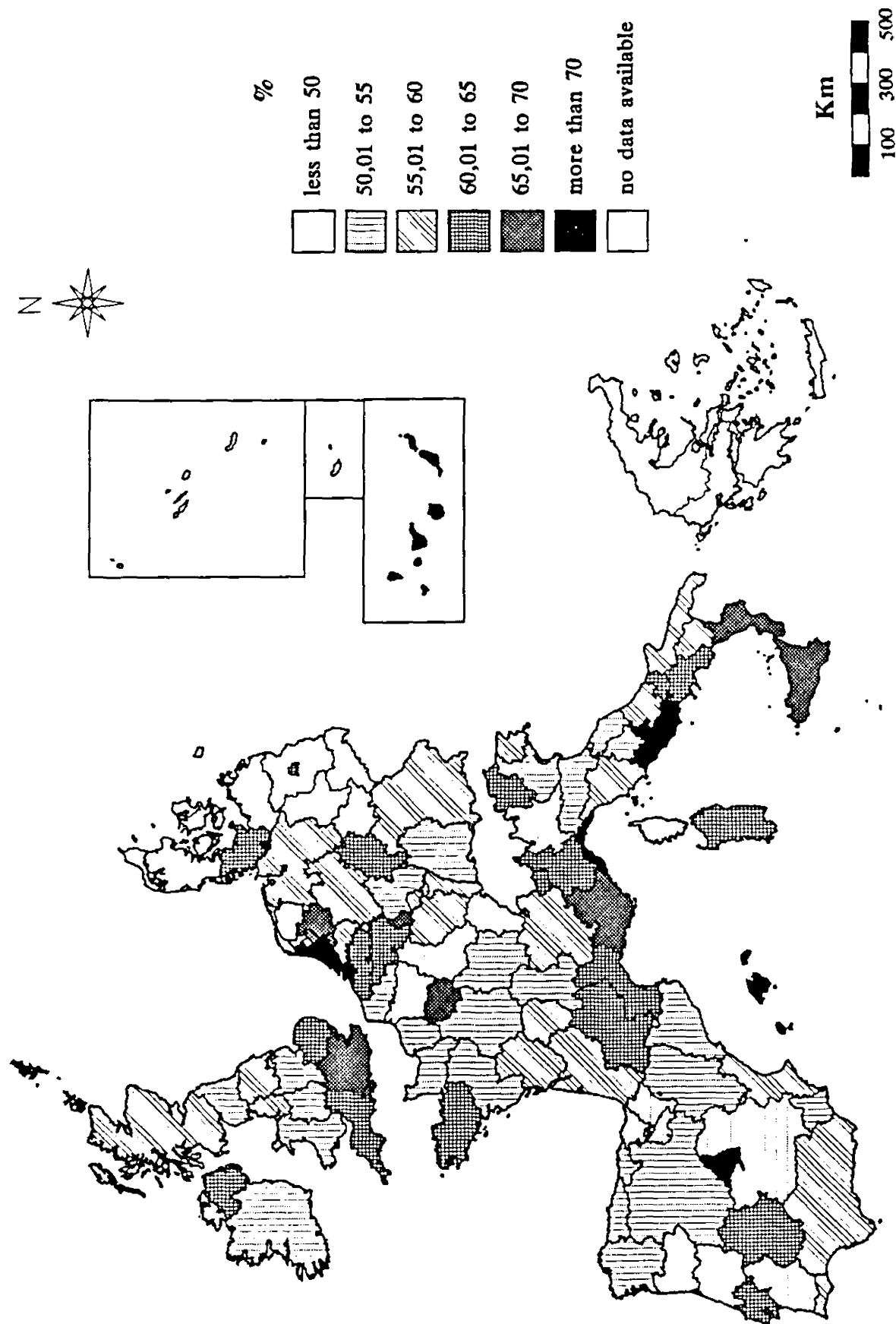
Map III.8



SHARE OF THE SERVICE SECTOR IN TOTAL GDP

1980

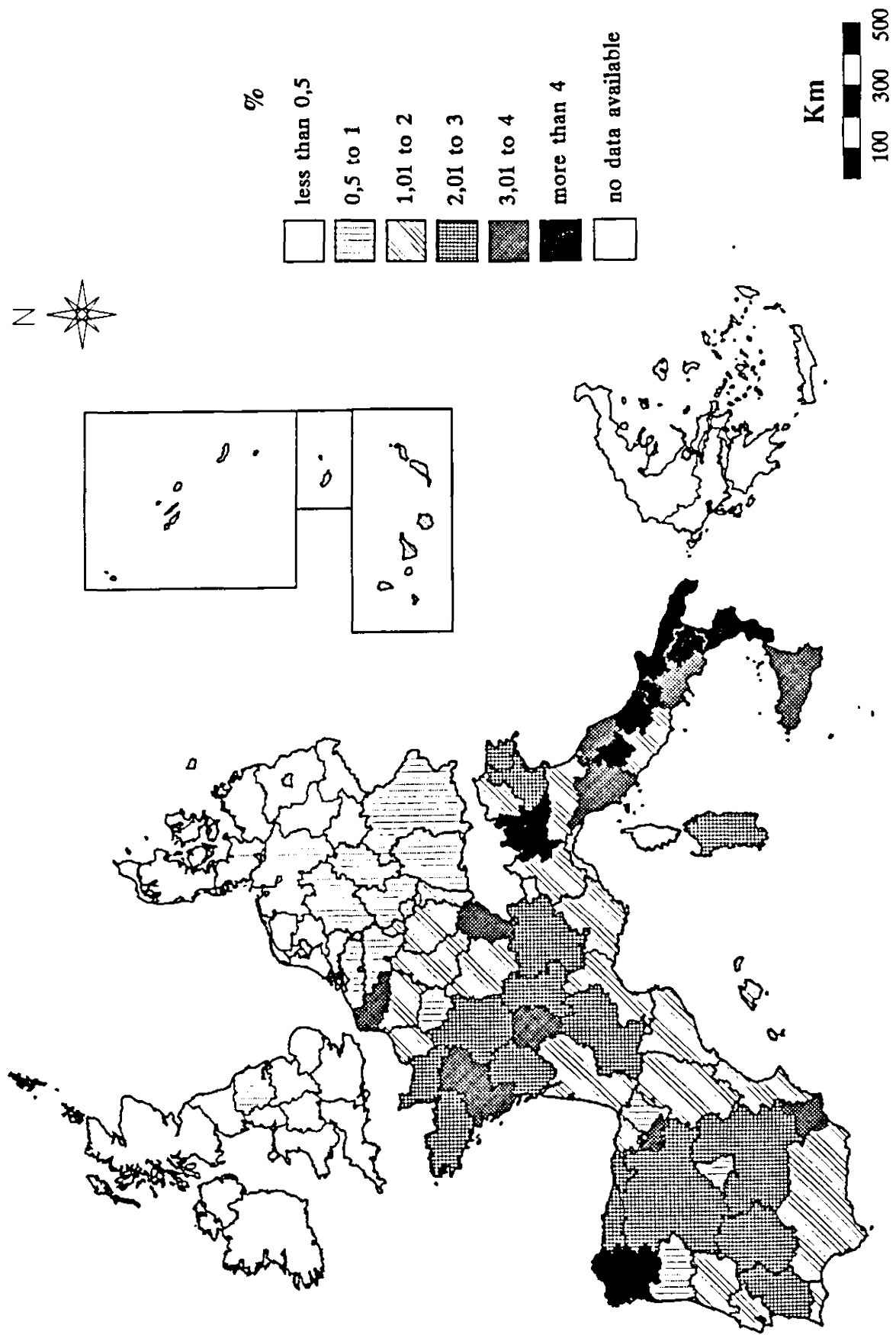
Map III.9



MEAN ANNUAL GROWTH OF THE SHARE OF THE SERVICE SECTOR IN GDP

1980-90

Map III.10



and Eastern Netherlands register very low levels of employment growth in the service sector (Map III.10).

Table III.14

**Regional Employment Rates in the
Service Sector in 1980**

Lowest rates		Highest rates	
Region	%	Region	%
Central Portugal (P)	27,07	Brussels (B)	83,02
Alentejo (P)	29,26	Hovedstadsregionen (Dk)	75,65
North of Portugal (P)	29,46	Ceuta y Melilla (E)	75,00
Galicia (E)	33,86	Hamburg (D)	70,27
Rioja (E)	35,87	South East (UK)	70,08
Castile-La Mancha (E)	38,83	Western Netherlands (NI)	69,46
Asturias (E)	38,96	Île de France (F)	68,54
Castile and León (E)	40,33	Lazio (I)	67,15
Cantabria (E)	41,40	Berlin (D)	66,93
Basilicata (I)	41,51	Provence-Alpes-Côte d'Azur (F)	66,20

Source: Internal based on EUROSTAT data.

Regions with an advanced service sector are, indeed, a minority. The highest job creation in services has been attained in areas which had a relatively modest tertiary sector at the beginning of the restructuring process, and mainly in the traditional agricultural regions of the Italian Mezzogiorno, Central (with the exception of Madrid) and Western Spain, most Portuguese regions (and especially in Alentejo) and Western France. In the vast majority of these areas the tertiary sector employed in 1980 less than 45% of the active population and amounted (with the exceptions of Sicily, Calabria or Brittany) to less than 55% of the total gross value added or the region (Table III.14).

The tertiary sector has also experienced a significant expansion in traditional Fordist industrial regions, such as Yorkshire and Humberside, Nord-Pas de Calais, or Asturias. Even in national settings characterized by a low annual increase of the degree of employment provided by the service sector (such as the German and Belgian context), regions experiencing the greatest enlargement of the service sector are precisely the industrial strongholds of North Rhine-Westphalia, the Saar region, Lower Saxony and Wallonia.

Consequently, there is a negative association between growth of employment in the service sector and economic growth during the post-Fordist era. The present tertiarization of the socio-economic environment in stagnating industrial and peripheral areas, therefore, does not imply either a significant increase in productivity, or economic growth. In recent years there has been a significant growth of employment in the public sector and especially in full- and part-time public sector oriented employment in day care and other related activities, not only in countries with a long tradition of welfarism, such as Denmark, but also in countries like Spain (Cuadrado Roura and Del Río, 1993).

The rising precariousness in the labour market does not only affect the service sector, but is expanding to the whole economy. This phenomenon is characterized by a considerable incidence of non-wage labour in total employment and disguised employment in Italy (Bettio and Villa, 1989), the rise of non-standard forms of employment in Germany (Büchtemann and Quack, 1989), significant increases of temporary, self and clandestine employment in France (Caire, 1989); and by the increase in homeworking, self-employment and the black economy in the United Kingdom (Rubery, 1989).

III.2.2.- MARKET-ORIENTED VERSUS NON-MARKET-ORIENTED SERVICE SECTOR: THE SOCIAL BASES OF ECONOMIC 'TERTIARIZATION'.

Two hypothesis have been suggested in the previous section as possible explanations of the meagre sway of the development of the 'service economy' on economic growth:

- a) the rise of a different 'service economy' in peripheral less dynamic and in former mass production areas, where precarious services predominate, in contrast to the advanced tertiary sector of capital regions and urban financial centres, and of a few intermediate areas;
- b) the expansion in lagging regions of employment in the service sector, as a practice to counter the unemployment problems created by the crises in the industrial and agricultural sectors.

In order to test these hypotheses, we must resort to an analysis in detail of the service sector and its relationship to other activity indicators and growth. The division between market-oriented and non-market-oriented services allows us to establish a clear cut separation between two types of labour activity linked with different social phenomena. Whereas the expansion of market services depends mainly on the economic cycle and on the availability of labour, public services are more related to socio-political conditions and are, thus, more inflexible to change and fluctuations in the economic cycle. The services which have experienced the greatest expansion, in economic terms, during the flexibilization of mass production (finance, services to industry, real estate, communication, and credit and insurance services) are included in the first category. We also find in this group some low productivity services, concentrated around the recovery and repair, wholesales and retail service sectors.

Non-market services -mainly those related to public administration- have long relied on national and local socio-political conditions and decision-making and, therefore, economic globalization and the establishment of socio-economic networks as such has had little influence on altering job creation trends in this field.

Traditionally market-oriented services represented -and in most areas still represent- a larger share of the socio-economic structure than the public sector. In the EC in 1980,

market services employed twice as much workers as public sectors, and their value added was three times higher than that of non-market-oriented services. As a consequence, the average productivity of market services was about 50% higher than that of the non-market-oriented sector.

Economic growth, consequently, depends more on the circumstances and transformations in market-oriented services than in public services. The following table highlights the existence of statistically significant correlations between the conditions in gross value added and employment in the market oriented service sector in 1980 and economic growth rates. It also manifests a negative association between growth in employment and value added in the non-market-oriented sector and economic growth (Table III.15).

From the table we can deduce that the regions which already had a strong market-oriented service sector at the beginning of the process of socio-economic restructuring have experienced the greatest growth rates during the last decade. The association of the subsector with growth is stronger in the case of the share of GVA than in the case of employment. These statement is confirmed by regressing growth rates during the 1980s on the share of GVA held by market-oriented services in 1980⁸ (Table III.16).

The main conclusion to be taken from this type of analysis is that growth has been mainly concentrated in areas which already enjoyed a dynamic and well-endowed service sector in the late 1970s and early 1980s. These were mainly urban areas, and thus it could be stated that the process of socio-economic restructuring and the flexibilization of the economy, far from provoking the crises in urban zones -which, in theory, were associated with the uprooting of industries from central locations and their transferral to other areas-

⁸ Although the low R^2 implies that the variation of the independent variable explains only 32.61 percent of the variation in the dependent variable -what, at first sight, might seem a very low percentage-, we must not forget that the results of the F tests are significant and that the regression is run with 93 degrees of freedom. Such a high number of degrees of freedom causes a sharp fall in the R^2 statistic, and therefore the F test alone can be considered as a good indicator of the goodness of fit.

Table III.15

**Correlation Coefficients between Economic Growth and
the Evolution of the Service Sector**

	Growth
Employment in the market-oriented sector (1980)	0,43
Employment in the non-market oriented sec. (1980)	0,25
Changes in employment in the market-oriented services (1980-89)	-0,03
Changes in employment in the non market-oriented services (1980-89)	-0,29
Share of GVA in market-oriented sector (1980)	0,61
Share of GVA in non-market oriented sector (1980)	0,11
Changes in the share of GVA of market oriented services (1980-89)	0,06
Changes in the share of GVA of non market-oriented services (1980-89)	-0,30

Source: Internal using the EUROSTAT Database.

has in fact fostered the development of urban spaces, especially large metropolises. As Krätke argues, it could be said that the urban polarisation of growth trends has been the major consequence of the current phase of social transformation (1991, 272). New development poles appear mainly in urban areas which had already developed a strong market-oriented service sector at the beginning of the process of socio-economic restructuring. Thus, the ideal type socio-economic example of a post-Fordist growth pole is made up of an urban region, dominated by a strong metropolis, and with developed financial and real estate markets. These areas also feature a strong link between services and modern and decentralized industries integrated into world economic circuits. The concentration of political power is another requisite; capital regions in each country have tended to grow well above their

Table III.16

**Regional Growth Rates (1980-91) Regressed on the Share of GVA
of the Market Oriented Service Sector in 1980**

Variable	β	St. Err. of β	B	St. Err. of B	t(93)	p-level
GVAMA80	.571	.085	.612	.091	6.709	.000
R ² =32.61 adjusted R ² =31.89 F (1,93)=45.01						

respective national mean, regardless of the pre-existence of a well structured and modern industrial fabric or of a very dynamic tertiary sector. Finally, these areas have witnessed in recent years a significant accumulation of capital and profound transformations in their social structure, associated with improvements in the educational and training levels of their human resources and the attraction of qualified personnel from neighbouring zones (Noyelle, 1987; Ochel and Wegner, 1987; Ileris, 1989). Capital regions in the EU and a few other financial centres like Frankfurt or Hamburg fulfil all these conditions, and, thus, constitute the post-Fordist development hubs *par excellence*.

**III.2.3.- CHANGE IN THE PUBLIC AND IN THE PRIVATE SERVICE SECTOR
AND ECONOMIC GROWTH.**

Although, as we have seen, initial conditions in the market-oriented service sector had a stronger connection with growth rates than start-up conditions in the public service sector, the influence of both sectors is reversed when changes in both subsectors during the 1980s are considered.

At first sight, a greater relationship between transformations in market-oriented services and economic growth could be expected on the short term, since this subsector is more closely linked to global socio-economic restructuring than public services. However, the correlation coefficient between changes in employment and in the share of GVA of market-oriented services and growth is not statistically significant (*vid.* Table III.15).

On the contrary, the negative association between the expansion in the public service sector and economic growth is fairly strong. This could imply that either employment creation in administration and a growth of the share of the public sector in GVA have tended to slow down economic growth in the 1980s, or that public sector employment expansion is a response to low growth.

The main expansion of employment in public administration has taken place in peripheral regions of Portugal and Spain. In Spain, employment in the public sector increases by more than 2% annually in all regions (but for Madrid and Navarre). Growth in Spanish public employment is closely related to the devolution of powers to regions and to the creation of sizable regional administrations, especially in regions enjoying the greatest level of political autonomy like Catalonia, Galicia, the Basque Country, or Andalusia, and in other areas undergoing strong agricultural and industrial crises such as Castile and León or Asturias. In Portugal, the expansion of public employment is related to low levels of employment in the sector in 1980.

In France, employment growth in the public sector is mainly concentrated on former mass production regions of the Parisian periphery. Partly, the expansion of the public sector responds to similar circumstances as in the Spanish case: during the 1980s the Socialist government has given way to a moderate regionalization process, which has entailed the creation of new administrative bodies at the regional level. However, the bulk of the expansion of employment in the public sector has occurred precisely in the regions undergoing strong industrial decline. Rhône-Alpes, Pays de la Loire and Alsace are the only

three French industrial regions where growth of employment in the public sector can be considered as relatively moderate. On the other side of the scale, four of the peak French industrial regions in 1980 (Franche-Comté, Nord-Pas de Calais, Picardy, and Upper Normandy) attain the highest levels in employment growth (Map III.11).

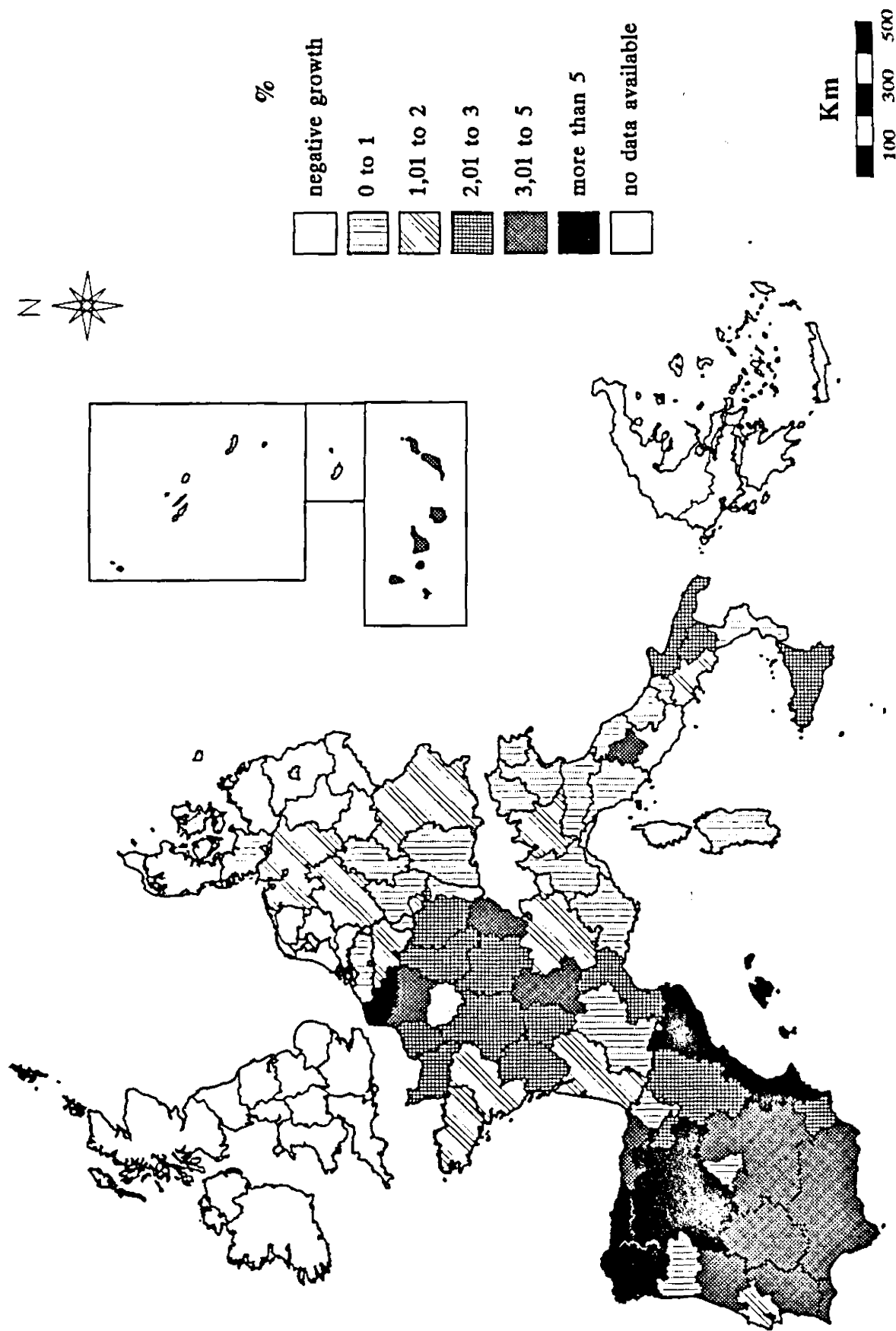
Employment in public administration thus becomes an outlet in declining areas. Furthermore, the fact that patterns of annual increase in public employment adapt to the national borders of countries governed by Socialist parties, implies that these governments have resorted rationally to public expenditure and public employment as a weapon to fight high unemployment, albeit at the risk of engendering a swollen tertiary sector. However, in most cases, this effort has not been accompanied by high growth rates. In France, for example, high growth is achieved in intermediate regions like Aquitaine or Midi-Pyrénées which saw a relatively low expansion of public services. In Spain, high growth occurs also in regions with a low development of the public sector (Madrid and Murcia), as well as in those with high increases in the sector (Catalonia or the Balearic Islands).

In the light of the results, it might be considered that Italy has been spared from the conception of employment in the public service sector as a security valve. Italy witnesses a relatively moderate expansion of the public sector (aside from Umbria, Basilicata, Puglia and Sicily). Nevertheless, the phenomenon observed in the cases of France, Portugal, and Spain is reproduced when the whole service sector -and not just the public sector- is contemplated. Growth of employment in services reaches its peak in regions bearing high unemployment rates and is associated with low levels of economic growth. In depressed areas, is similar to the one operating in France or Spain, with the distinctive feature that the growth of employment in the tertiary sector is concentrated in small retail services. This might be due to the existence of a traditionally swollen public sector, especially in the South. However, in the Italian case, the growth of employment in the small retail service sector is also closely connected to administrative decision making in order to prevent social unrest, since licenses

MEAN ANNUAL GROWTH RATE OF THE SHARE OF EMPLOYMENT IN ADMINISTRATION

1980-90

Map III.11



to open tobacconists and a large number of small shops, depend on administrative approval (Trigilia, 1992b).

In sum, it could be stated that the expansion of the service sector is far from being the panacea for regional growth. Socio-economic restructuring has brought a model of service development dominated by the enlargement of precarious services which has had little influence on economic growth. Multiple regression analyses with sectoral indicators representing sectoral employment and gross value added come to reinforce this idea. After conducting several preliminary regressions with all sectoral variables and *t*-tests and a joint *F* test on the redundant variables, an empirical model was accepted at 95 percent level of significance. Three variables are included in the model, which adopts the following form:

$$y = a + GVAMA80x + \Delta EMPNMx + \Delta EMPINDx + e \quad (1)$$

where:

- *y* equals the mean annual rate of regional growth between 1980 and 1989.
- *GVAMA80* denotes the share of market-oriented services in the total GVA of the region in 1980.
- $\Delta EMPNM$ denotes the mean annual growth of employment in non-market-oriented services, between 1980 and 1990.
- $\Delta EMPIND$ denotes the mean annual growth of employment in the secondary sector between 1980 and 1990.

The results of the regression are reproduced in the following table (Table III.17):

The model discloses the existence of opposite tendencies in labour growth in the industrial and public service sectors. Whereas a strong market-oriented service sector at the beginning of the decade and increases -or, as is more likely with the global situation in Europe, modest declines- in employment in the secondary sector are positively associated

Table III.17

**Annual Rates of Regional Growth Regressed on the Independent
Variables of the Empirical Model**

Variable	β	St. Err. of β	B	St. Err. of B	t(75)	p-level
GVAMA80	.637	.086	.750	.101	7.430	.000
Δ EMPNM	-.281	.084	-1.057	.316	-3.349	.001
Δ EMPIND	.177	.086	4.678	2.264	2.065	.042
R ² =47.32						
adjusted R ² =45.21						
F (3,75)=22.45						

with economic growth, the expansion of employment in the non market oriented service sector during the 1980s is negatively connected to growth rates. The results, thus, corroborate the idea of the public service sector as a shield against social unrest in declining areas. Governments have resorted to job creation in non-market-oriented sectors as a means to temper severe crises in former mass production and agricultural areas.

Conversely, in a period identified with a strong contraction of industrial jobs, the creation of jobs in industry is associated with high rates of growth. And, geographically speaking, the expansion of industrial employment has occurred outside the traditional Fordist havens in intermediate regions with little industrial traditions. This is the case of Molise in Italy, the Canary Islands, Aragón, Extremadura, and Navarre in Spain, the West and the East of the Great Belt in Denmark, or East Anglia in the United Kingdom. In capital areas and financial centres, the destruction of industrial employment has outstripped job creation in the field.

Similar results are obtained when variables reflecting inherited labour market conditions and unemployment levels as well as their respective changes throughout the 1980s are included in the analysis⁹. The performance of *t*-tests and a joint *F* test on the redundant variables gave an empirical model, accepted at 95 percent level of significance. The model is depicted in the following equation:

$$y = a + GVAMA80x + \Delta EMPNMx + ACTTOT80x + \Delta ACTFEMx + UNEYOU80x + e \quad (2)$$

where *y*, *GVAMA80*, and *ΔEMPNM* represent the same variables as in the previous model and:

- *ACTTOT80* denotes the active population rate in 1980.
- *ΔACTFEM* represents the mean annual growth rate of female activity between 1980 and 1990.
- *UNEYOU80* denotes the youth unemployment rate (< than 25) in 1980.

Table III.18 reports the outcomes of the regression of the mean annual regional growth rates on the five variables included in the model. According to the model, initial gross value added in the market oriented service sector and increases in employment in the institutional service sector still have, respectively, a positive and negative sway on regional growth rates during the period of socio-economic restructuring. The other three variables depicting the initial labour market conditions and their change all have a positive connection with economic growth.

The labour market conditions more closely related to high growth in the EU during the 1980s, revolve around the need to involve as large a social spectrum as possible in the economic activity. This identification of society with economy is achieved thanks to the

⁹ All the indicators reflecting labour market initial conditions and change used in this regression analysis were already employed in the cluster analysis.

Table III.18

**Annual Rates of Regional Growth Regressed on the Independent
Variables of the Empirical Model**

Variable	β	St. Err. of β	B	St. Err. of B	t(67)	p-level
Δ EMPNM	-.339	.091	-1.107	.298	-3.710	.000
GVAMA80	.589	.086	.649	.095	6.833	.000
ACTTOT80	.487	.135	.748	.208	3.605	.000
Δ ACTFEM	.414	.115	.655	.182	3.590	.001
UNEYOU80	.271	.110	.153	.062	2.460	.016
$R^2=51.77$						
adjusted $R^2=48.18$						
F (5,67)=14.39						

presence of high initial levels of active population. It is also facilitated through the progressive incorporation of women into the labour market.

On the one hand, the rapid integration of women in the economic structure during the 1980s positively associated with growth in the areas in which this process has been achieved with the greatest success: some southern and eastern regions of the Iberian peninsula, the eastern part of the Netherlands, and certain regions in southern England (the South West, or East Anglia). In other areas, the incorporation of women has served more to cushion the relative decline of the region as a consequence of structural crises. This has been the case in the Länder of North Rhine-Westphalia, Rhineland-Palatinate or the Saar region in Germany. Moreover, there is a close connection between increases in female employment and regional growth in France. The few French regions where the activity of women has not decreased during the 1980s (Languedoc-Rousillon, Auvergne, or Poitou-Charentes) have

experienced growth rates above those for the rest of the country. On the other hand, the areas which have witnessed the greatest reductions in women's participation in the labour market during the 1980s, have endured the lowest growth rates. These regions are the ones that had been the centre of the mass-production industry in France (Nord-Pas de Calais, Picardy, Lorraine and Champagne-Ardenne). Also in Great Britain there is a close tie between the increase of female activity during the 1980s and regional growth. East Anglia, Wales and the South West of England are the regions where the levels of incorporation of women into the labour market are at their highest.

Finally, the positive correlation between initial activity rates and regional growth, corroborates the evidence that the larger the participation of social agents in the economy, the greater the chances of spurring growth. Regions with high levels of initial activity tend to grow above the European average. These include most capital regions and financial centres and large number of intermediate dynamic regions such as Baden-Württemberg, Bavaria, Alsace, East Anglia, the South West of England, or -in national contexts of low activity- Catalonia, Valencia, and the Balearic Islands, or Veneto, Lombardy, and Emilia-Romagna. On the contrary, most of the regions with a low percentage of total activity at the beginning of the 1980s also tended to have high levels of unemployment, and experienced low levels of growth. Combinations of these factors are observed in regions such as Basilicata, Campania, Sicily, Andalusia, Cantabria, Extremadura, or the Basque Country.

Hence, the 'tertiarization' of the socio-economic structure and the divorce between the social and economic spheres in European regions emerge as two of the main factors which are closely related with the birth of a dependent economy with a low dynamic potential. It is dependent because, in order to survive, it must rely on economic transfers from national or Community funds, in order to foster 'social' employment which, in turn, helps to avoid social unrest to the detriment of economic growth. It is immobile or little dynamic because the existence of a dependent economy over a long period of time ultimately

entails the creation of vicious circles that restrict -and can eventually destroy- entrepreneurial activity in large zones (Banti, 1989, p. 85).

III.3.- EDUCATION AND ECONOMIC GROWTH IN THE POST-FORDIST ERA.

The cluster analysis showed a fairly meaningful connection between education and regional growth rates. However, this argument was based on only two partial indicators and which in no way referred to the level of educational achievement. Lack of educational data at a regional level in the European Community precludes almost any kind of cross-national analysis in order to check the influence of educational attainment on regional growth. Therefore we must resort to a national case study in order to verify what is the type of relationship established between regional growth and education. In the following pages such a study will be conducted for Spain, where rich regional databases on education are available.

III.3.1.- EDUCATION AND ECONOMIC GROWTH IN SPAIN.

It has been generally accepted that the educational system contributes to the general and specific training of every individual in order to insert each person in society generally, and the labour market, in particular. Consequently, the educational system fulfils the role of providing individuals knowledge, abilities and capacities which will be translated into productive activities once each individual enters the labour market. Education supplies skills which "must be considered the most vital components which are built into every innovation as a new combination" (Elam, 1993, p. 34). Furthermore, educational attainment constitutes one of the generally accepted criteria for measuring the capacity of any candidate for a certain post and, hence, select the best person for each job. The educational system thus becomes the main vehicle for the diffusion of knowledge which, once applied in the labour market, will enable significant increases in productivity, spur technological renovation, and optimize the use of resources. In this sense, educational attainment could be considered as an economically dynamizing factor, which fosters growth.

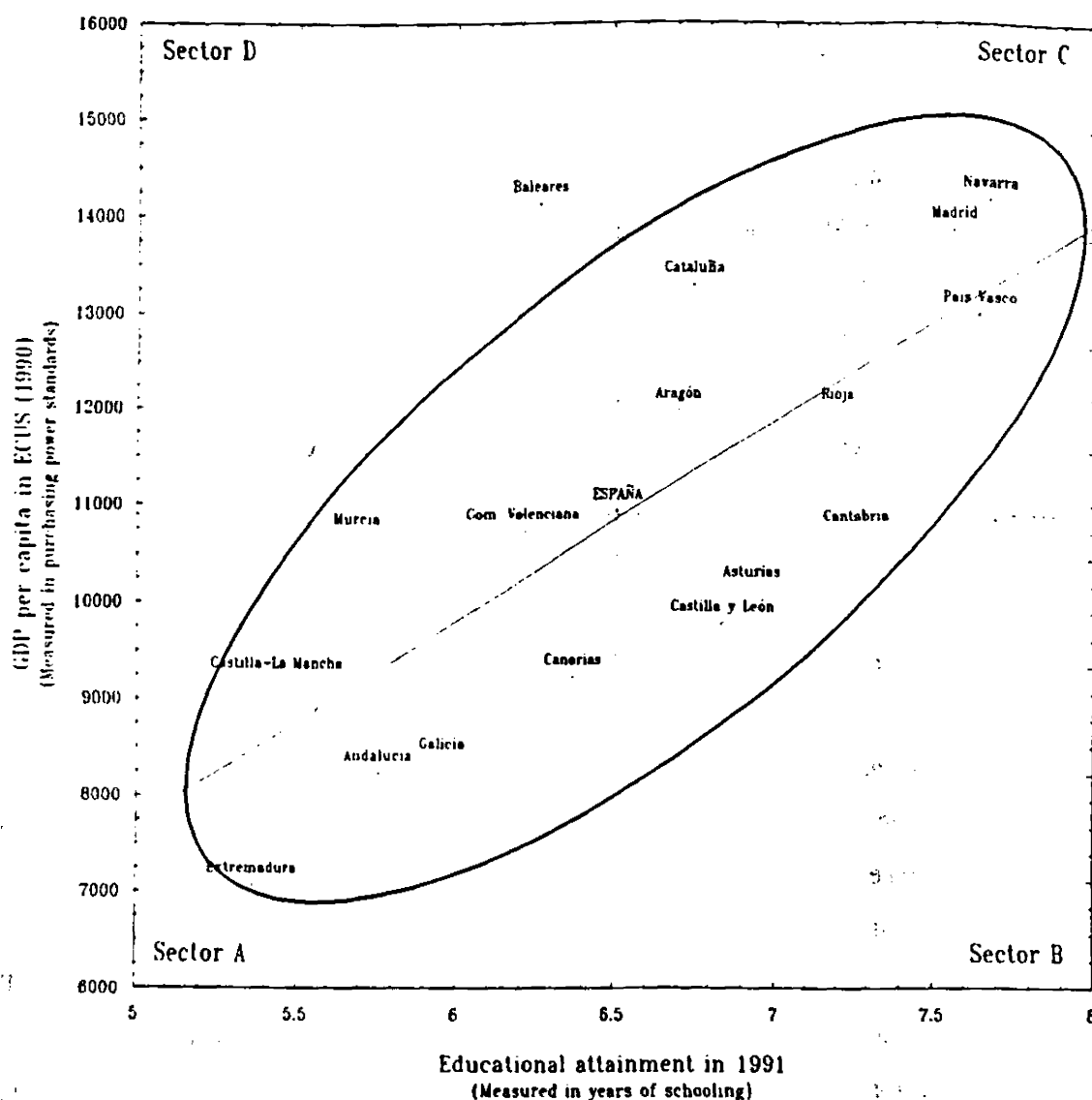


Figure III.7. Relationship between educational attainment and GDP per head in Spanish regions.

Based on these arguments, the human capital school has tried to determine the relationship between educational attainment and growth. From this point of view, the greater the educational level of the population of any space, the greater the possibilities of achieving high economic growth. In the Spanish context, this hypothesis seems to be confirmed by empirical data. Figure III.7 demonstrates the existence of a substantial positive association

between the average educational level of the population (measured by the number of years spent in education) and GDP per capita. Almost all Spanish regions are located within the ellipse representing the normal distribution around the linear function. The Balearic Islands are the only exception. This region ranks second in per capita income, despite the low level of educational attainment of its population.

The poorest regions (Extremadura, Andalusia, Galicia, the Canary Islands, Castile-La Mancha, Murcia, and Valencia) are precisely those with the lowest educational level. Several lagging regions have levels of per capita income below the educational attainment of their inhabitants. Extremadura, Andalusia, the Canary Islands, and, above all, the Northern regions of Castile and León, Asturias and Cantabria belong to this group. On the contrary, Castile-La Mancha, Murcia and Valencia, enjoy income levels above their educational potential. In general, the richest Spanish regions belong to the group whose income per capita is higher than their educational level. This is the case of the Balearic Islands, Catalonia, Navarre, Madrid and Aragón. Rioja and the Basque Country are the only advanced regions lying close to the function line.

When the Figure III.7 is divided into four sections, taking the Spanish average in the number of years of schooling and the average GDP per capita, the deficiencies of the economically lagging regions in educational attainment become more evident. 7 out of the 10 poorest Spanish regions are included in section A of the graph, and thus, are characterised by substantial shortages in terms of educational attainment of their inhabitants with respect to the Spanish average. The educational level of the four poorest Spanish regions (Extremadura, Andalusia, Galicia and Castile-La Mancha) is the lowest in Spain. Murcia, despite the fact of enjoying a relatively high level of GDP per capita, also stands out for the low educational attainment of its population. Valencia and the Canary Islands -two of the regions with highest level of economic growth throughout the 1980s-, even not reaching the Spanish average, are far better off than the rest of the Spanish lagging regions.

In section B, we find those regions that despite the fact of having population cohorts with higher educational levels than the Spanish average, have not been capable of translating this relative advantage into higher growth levels. This groups includes most regions in Northwestern Spain, with the exception of Galicia.

The Spanish Autonomous Communities with the highest per capita income levels are all -with the exception of the Balearic Islands- in section C of the graph; the section which depicts levels of GDP per capita and educational attainments above the Spanish average.

The high association between education and regional economic development is sanctioned by the strong positive correlation between regional GDP per capita and other indicators of the educational level such as the percentage of adults with a university degree, the educational attainment (measured in years of education) of the working population, and the percentage of university graduates in the working population. On the contrary a strong negative correlation between GDP per capita and illiteracy rates is observed (Table III.19).

Table III.19

**Correlation Coefficients between GDP per Capita (1990)
and Some Educational Indicators (1991)**

GDP per capita - Mean educational level of the population	0,71
GDP per capita - % of university graduates	0,75
GDP per capita - Mean educational level of the working population	0,76
GDP per capita - % of university graduates in the working population	0,70
GDP per capita - illiteracy rates	-0,64

However, the sheer existence of statistically meaningful correlations between income and indicators of the educational level does not yet clarify the nature of the relationship between education and growth. Firstly, we cannot state whether this relationship is univocal or reciprocal, and in the case of the former, if high educational levels trigger economic growth or vice versa. Secondly, since the influence of education on growth is not produced immediately, but on the medium and long-run, any association between contemporary variables in both fields can only be indicative and not causal. And finally, educated individuals are not immobile: growing areas are likely to exert a considerable attraction on educated people living in lagging zones.

In order to resolve these problems, we must resort to comparing present development levels with past educational attainment. Figure III.8 represents the percentage of population of 16 and over with a secondary degree in 1980 in the X axis, and GDP per capita ten years later, in the Y axis.

Here again there is a strong level of association between educational attainment and GDP per capita. The Balearic Islands and Madrid are the only regions outside the normal distribution ellipse. The rest of the pattern is similar to the one described before. In the regions included in Section A (Extremadura, Castile-La Mancha, Galicia, Andalusia and Murcia), low educational attainment in 1980 has become a serious handicap for economic growth.

The Canary Islands and Cantabria -both placed in section B- represent those regions that, in spite of having a higher educational basis than the Spanish average have not been able to translate this relative advantage into high levels of income. Nevertheless, growth rates in both regions during the 1980s diverge completely. On the one hand, Cantabria has plunged into a deep depression, while the Canary Islands have experienced the highest growth rate in the whole of the Community.

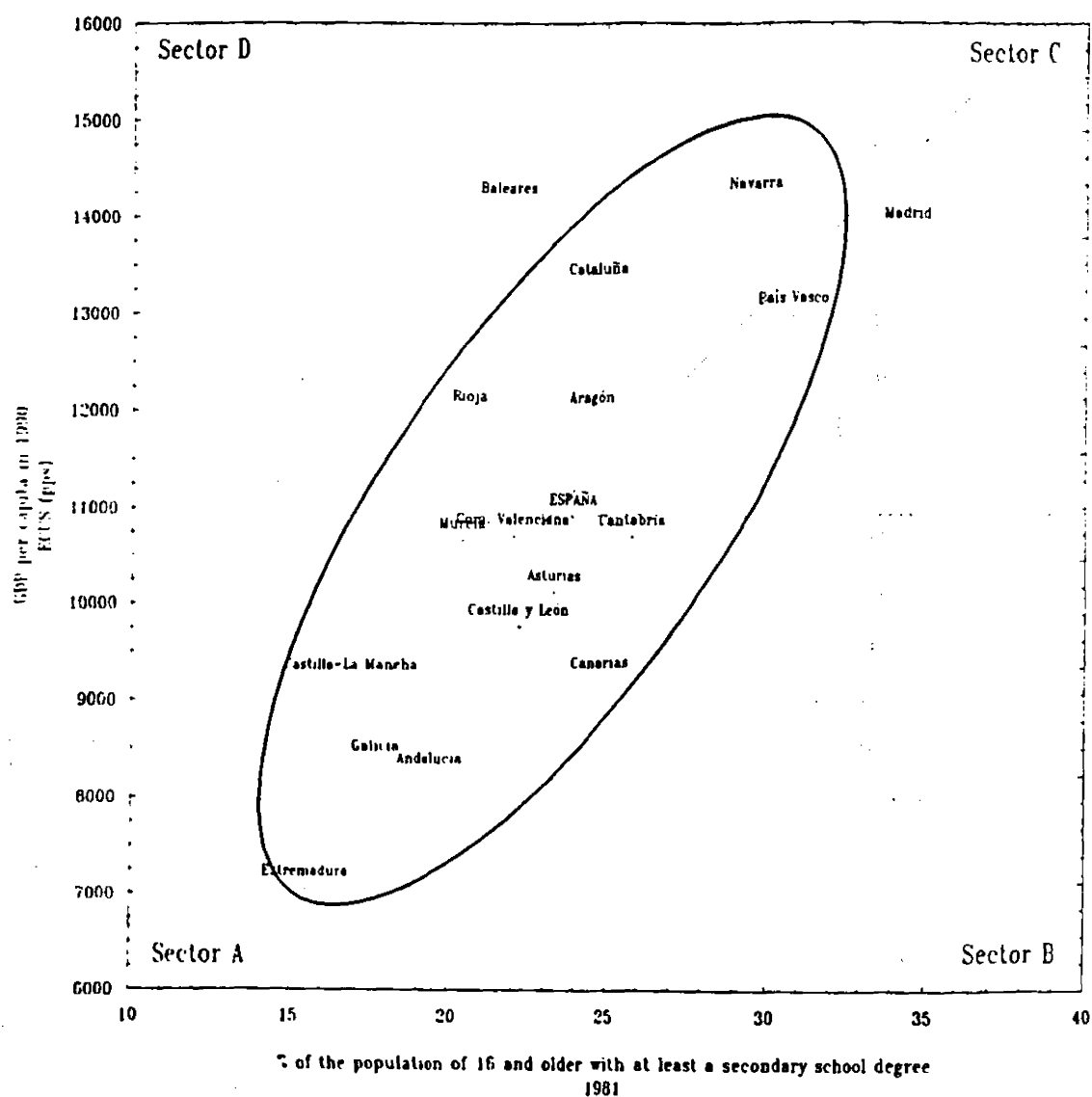


Figure III.8. Relationship between educational attainment in 1981 and regional GDP in 1990.

The causal relationship between educational attainment and growth is corroborated when regressing the latter between 1980 and 1990 on the former in 1980. The model adopts the following form:

$$\text{Growth of GDP 1980-90} = a + \text{educational attainment in 1980} + e \quad (3)$$

We reach the following results (Table III.20):

Table III.20

Average Annual Regional Growth (1980-90)
Regressed on Educational
Attainment of the Adult Population in 1980

Variable	β	St. Err. of β	B	St. Err. of B	t(16)	p-level
EDUCATT	.739	.168	326.69	74.437	4.388	.004
$R^2 = 54.62$ adjusted $R^2 = 51.79$ F (1,16) = 19.26						

These results indicate that the regional percentage of adult population having completed secondary or university education in 1980 has a strong explanatory value concerning the territorial distribution of economic growth during the 1980s.

As a consequence, it could be stated that, in the Spanish case, low levels of schooling and low educational attainment of the active population constitute a severe handicap for regional growth. This handicap is strongest in those regions where the educational shortage is manifest, and less important as the level of educational attainment rises.

In sum, education, of course, cannot be considered as the only factor (or even as the fundamental factor) determining growth, however, it can be stated that in Spain, deficiencies

in educational attainment of the population in general, and of the active population in particular, narrow the possibilities of economic growth.

III.3.2.- INVESTMENT IN EDUCATION AND ECONOMIC GROWTH IN SPAIN.

As we have seen, in Spain, the lack of qualified human resources deters economic growth of any given region. However, does investment in education suffice to improve the capacity of economic growth to the same extent as progress in other fields such as technology and the accumulation of capital?

The answer to this question is not simple. In contrast to the visibility of the correlation between investment in technology or in infrastructure and economic growth, investment in human capital tends to be considered as a risky bet in terms of fostering growth. There is no clearly established linear relationship between educational attainment and economic growth. This fact and the propensity of highly qualified and skilled personnel from lagging to migrate to prosperous areas in search of better job opportunities -the famous 'brain drain'- has often been given as a justification to disregard the educational level of local human resources as one of the main constituents of economic growth.

However, in the Spanish case, there is certain evidence which contradicts these arguments, at least in the short and medium term. If migration patterns in the last three decades are analyzed, we observe that, whereas in the period 1961-70 -the high point of the 'rural exodus'- all lagging Spanish regions had strongly negative migration rates, in the 1980s there is a clear inversion of this process. Firstly, there is a neat reduction in absolute migration and a greater balance between inward and outward migration. Secondly, only the Northern regions of Galicia and Asturias, as well as the Northern African enclaves of Ceuta and Melilla (for obvious political reasons) have slightly negative migration rates. In the rest of Spain inward migration exceeds outward migration. This phenomenon can be partly

explained as a result of 'return' migration of Spaniards from other countries of the EU, as a consequence of increasing unemployment in receiving areas (Table III.21)

Table III.21

Migration Rates in Spanish Lagging Regions

Region	Migration rate	
	1961-70	1981-91
Andalusia	-146,4	5,8
Asturias	-30,4	-1,3
Canary Islands	-48,2	12,4
Cantabria	-28,7	3,6
Castile-La Mancha	-234,2	5,8
Castile and León	-167,7	1,7
Valencia	166,0	4,8
Extremadura	-271,4	18,1
Galicia	-93,7	-7,8
Murcia	-129,6	4,0
Ceuta and Melilla	-	-34,4

Source: INE

The present conditions of the labour market do not favour radical changes in migration rates. The greater mobility of highly qualified and skilled labour only happens when there are receiving areas capable of offering employment and high wages. However, throughout the 1980s and early 1990s central areas in Spain have been more severely hit by unemployment than lagging regions. The average educational attainment level (measured in years of schooling) of the unemployed population in central regions in 1991, was 1.1 years higher than that of the unemployed in peripheral regions (Instituto Nacional de Estadística, 1994), and therefore, unemployed population in lagging regions is disadvantaged with respect to the

mass of autochthonous unemployed when looking for a job in central areas. As a consequence, it is highly unlikely that under the present labour market conditions there will be a flow of skilled population from lagging towards central areas. Excess of skilled labour in central regions, together with factors such as lower cost and better quality of living in certain lagging areas are reversing the traditional flow of qualified labour. It is therefore more probable that either there will be a deepening of the process of migratory stagnation, or we will witness flows of skilled population from central zones towards peripheral regions (Cuadrado Roura and Del Río, 1993).

III.3.2.1.- Educational attainment and growth in Spanish lagging regions.

In the last fifteen years there has been a significant closing in the educational gap between Spain and the rest of the EU. A great leap in secondary school enrolment has been achieved from the starting levels of 29.6% in 1975 to 85.7% in 1991. These improvements in secondary and university education have resulted in a meaningful increase in the level of education of the Spanish population, as depicted in Table III.22, where the educational attainment of Spanish adults is compared in 1981, 1986 and 1991.

While the illiterate adult population or the percentage of adults without primary studies remain more or less stable, the most significant reduction is observed in the group of population with only primary studies, which fell by 15.2% in a decade. On the contrary, the percentage of adult population with secondary studies almost doubled. There is also an important advance in the percentage of the population with a university degree.

Nevertheless, this significant breakthrough in educational attainment did not suffice to fill the gap between central and peripheral regions in Spain. As we have already seen, the shortage of qualified and skilled labour is one of the main causes of the lower capacity to grow of peripheral regions in Spain. Among the ten poorest regions, only Cantabria, Asturias and Castile and León exceed the national average in terms of years of schooling of the

Table III.22

Spanish Adult Population (16 and Older)
According to the Level of Educational Achievement

	Illiterates and population without primary studies	Pop. with primary education	Pop. with secondary education	Pop. with university education	Total
1981	22.9	53.2	18.8	5.1	100
1986	21.1	45.8	26.7	6.4	100
1991	21.4	38.0	32.8	7.8	100

Source: Population Census.

population. Extremadura, Castile-La Mancha, Murcia, Andalusia, and Galicia, in contrast, display levels well below the Spanish average. Among the central Spanish regions, only the Balearic Islands are placed below the national mean, whereas in Navarre, the Basque Country and Madrid, the average school enrolment of the population is more than one year higher than the Spanish average (Table III.23).

This core-periphery structure in terms of education is reproduced when the illiteracy rate is taken into account. Once again Cantabria, Asturias, and Castile and León are the only lagging regions to have illiteracy rates well below the Spanish average. In Cantabria the percentage of illiterates is even the lowest in Spain. On the contrary, the illiteracy rate is very high in all other lagging regions, and specially in Extremadura, Ceuta and Melilla, Andalusia, and Castile-La Mancha (Table III.23).

More important in terms of the capacity to grow of peripheral regions in Spain, is the enrolment rate in secondary education. Whereas in all central regions, with the exception of

the Balearic Islands and Catalonia, almost 100% of the population in the age group between 14 and 18 is at school, in peripheral regions such a circumstance is only observed -once again- in Asturias, Cantabria, and Castile and León. Ceuta and Melilla, Extremadura, Castile-La Mancha, as well as the Canary islands and Andalusia are characterised by low enrolment rates.

Within secondary education, the greatest differences between central and peripheral regions are detected in enrolment in vocational training. Traditionally vocational training in Spain has been looked down upon as the Cinderella of secondary education, and consequently as a shelter for less talented teenagers. However, recent data shows that students who follow this branch of the secondary education find jobs more easily than secondary school graduates. This is mainly due to the fact that vocational training is furnishing experts in fields where there was a traditional shortage in the Spanish labour market: technical personnel and skilled labour. There are strong deficits in vocational training in numerous lagging regions like Asturias, Extremadura, Galicia, Valencia and Ceuta and Melilla. Andalusia, the Canary Islands, Cantabria, Castile-La Mancha and Murcia fluctuate around the Spanish average (Table III.23).

Clear disparities are also evident among central and peripheral regions when university education is analyzed. Cantabria and Castile and León are the only two regions with levels of GDP per capita below the Spanish average, which have an above average percentage of adults with university degrees. This contrasts with central regions, which all have -with the exception of the Balearic Islands- a higher percentage of university graduates than the national average. The shortage of university graduates is especially evident in Castile-La Mancha and Extremadura (Table III.23).

The lack of university graduates in lagging Spanish regions is being countered by the creation of new Universities. Since 1979 ten Universities have been created in peripheral areas. This measure has contributed to the reduction of the gap between lagging and

Table III.23

Main Regional Educational Indicators

	EDAT	ILRA	SCEN	VTEN	UNDE	UNEN	TECH	UNTR
Spain	6.51	3.91	85.7	35.7	7.7	33.0	0.23	34.8
Peripheral regions								
Andalusia	5.76	5.93	77.3	39.1	5.9	25.3	0.21	33.0
Asturias	6.93	0.99	101.9	34.4	7.3	39.7	0.19	31.9
Canary Is.	6.37	4.54	71.3	41.0	7.1	26.8	0.20	33.1
Cantabria	7.26	0.68	98.3	39.6	8.5	31.4	0.37	25.9
Castile and León	6.84	1.24	96.7	34.3	8.0	39.7	0.20	30.8
Castile-La Mancha	5.44	5.76	69.1	36.6	5.2	23.5	0.36	36.8
Extremadura	5.36	6.30	68.8	31.8	5.4	24.0	0.28	34.1
Galicia	5.96	3.01	85.5	33.5	6.0	30.5	0.21	34.9
Murcia	5.69	4.43	81.7	40.8	6.1	24.4	0.09	31.8
Valencia	6.21	3.09	80.1	35.4	6.2	28.1	0.23	36.7
Ceuta and Melilla	-	6.01	67.2	30.6	-	33.8	-	34.4
Central regions								
Aragón	6.70	1.61	99.6	37.6	8.5	41.3	0.23	42.7
Balearic Is.	6.26	2.77	76.3	33.1	6.8	20.6	-	37.1
Basque Country	7.64	1.28	102.2	39.6	10.0	39.7	0.20	29.3
Catalonia	6.75	2.27	88.0	41.6	8.1	33.0	0.30	37.3
Madrid	7.56	1.99	100.7	45.0	12.1	50.0	0.33	36.6
Navarre	7.67	0.96	95.0	26.6	11.0	36.7	0.52	33.6
Rioja	7.20	1.06	99.6	37.5	9.8	34.5	-	43.7
<p>EDAT - Educational attainment of the population in 1991 (measured in years of schooling)</p> <p>ILRA - Illiteracy rate of adult population in 1991.</p> <p>SCEN - Secondary school enrolment rate in the academic year 1990-1991.</p> <p>VTEN - Percentage of students in vocational training with respect to students in secondary education.</p> <p>UNDE - Percentage of the population with University degrees in 1991.</p> <p>UNEN - University enrolment rate (1991).</p> <p>TECH - Ratio of students in technical careers with respect to those in humanities and social sciences (1988-89).</p> <p>UNTR - Percentage of unemployed following training courses (1991).</p>								

advanced areas in terms of university enrolment. Nevertheless -as shown in Table III.24- many of these new universities lack the budget and the qualified personnel to become effective in contributing to fill up the knowledge gap between the centre and the periphery. On the contrary, some of the newly created universities in central regions -and mainly in Catalonia and Madrid- have been conceived and designed as elite research centres, and therefore, have greater budgets than new universities in peripheral areas.

III.3.2.2.- The relationship between educational supply and the labour market in peripheral regions.

Together with the shortage of qualified and skilled labour, there is another important educational factor which thwarts an adequate transformation of knowledge and the skills of local human resources into growth producing activities in peripheral regions: the imbalance between educational supply and the demands of the labour market. Training in lagging Spanish regions has always been -and still is- excessively oriented towards theoretical fields and humanities, both at the secondary and university levels.

Figures III.9 and III.10 report the educational attainment of employed and unemployed population -measured in years of schooling- in all Spanish regions, in 1988 and 1991. In numerous regions the educational attainment of the unemployed population is higher than that of the employed population. This factor is partly explained by resorting to the age structure of the unemployed. The highest levels of unemployment are found among the youngest cohorts of the active population, precisely the group which has mostly benefited from the diffusion of education to large sectors of the Spanish population. However, this structural fact does not hide the existence of significant imbalances between the educational and training offer and the labour market demand which affects all Spanish regions, but mainly those peripheral regions in North Western Spain -Asturias, Cantabria, Castile and León, and Galicia- which have had to face the greatest economic stagnation during the 1980s and early 1990s.

Table III.24**Mean Annual Cost per Student in Universities****Founded Since 1979**

New Universities	Annual budget per student in 1992 (in pts.)
La Coruña*	239473
Alicante*	251000
Vigo*	284060
Girona	310000
La Rioja	359210
Castilla-La Mancha*	383990
Cádiz*	387790
Tarragona	422823
Carlos III de Madrid	444833
León*	459818
Las Palmas*	481099
Jaume I de Castellón*	488253
LLeida	498750
Pública de Navarra	508800
Pompeu Fabra de Barcelona	1659000
Mean of all Spanish Universities	373579
* Universities created in lagging regions.	

Source: Consejo de Universidades.

The origin of this imbalance lies in the theoretical nature of most education provided in these regions, both at the secondary and university levels. As mentioned before, vocational training is often rejected as being considered a second class road to educational attainment, and university enrolment is mainly directed towards humanities and law. Among the ten lagging Spanish regions only Extremadura, Castile-La Mancha and Cantabria have ratios of

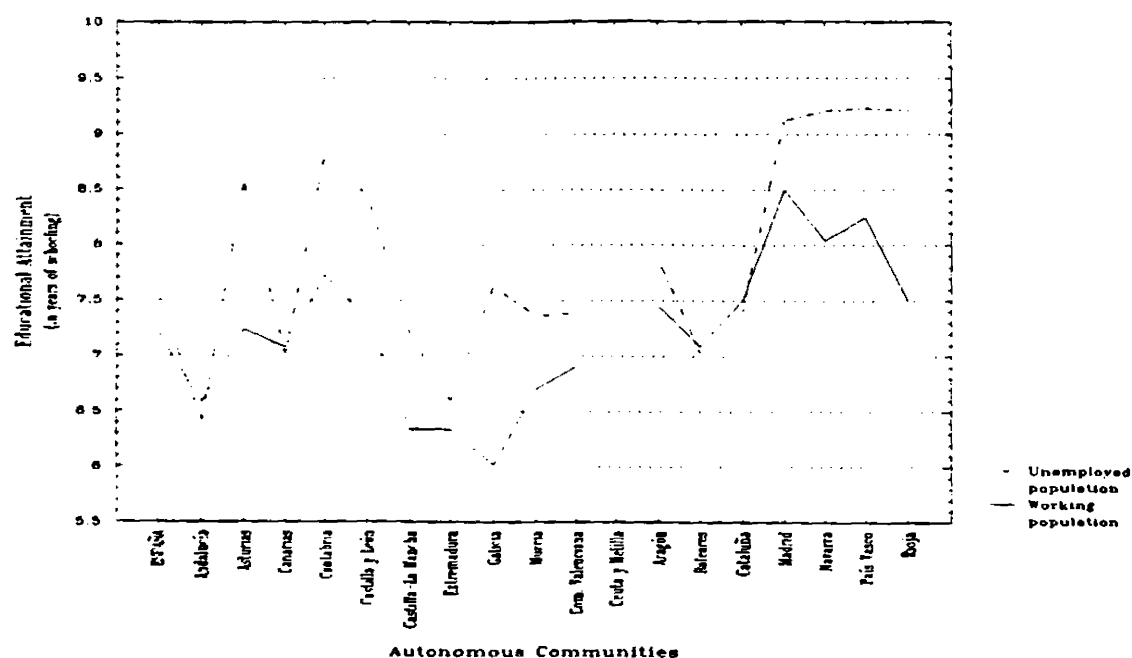


Figure III.9. Educational attainment of working and unemployed population in 1988.

students in technical careers with respect to those in humanities and social sciences which exceed the Spanish average (Figure III.11). Technical schools, faculties, careers and, therefore students, are fundamentally concentrated in Madrid, Catalonia and Navarre. Andalusia, Asturias, the Canary Islands, Castile and León, Galicia, and, above all, Murcia, are the regions with the highest deficit of technical careers. Hence, students from lagging regions aspiring to become engineers are often forced to migrate to Madrid or Catalonia. And the risk of no return to their places of origin is, thus, very high.

One must add to these factors, the lack of possibilities of completing and complementing theoretical education with on-the-job training in companies and enterprises. The whole system of combining theoretical training in universities or in vocational training centres, with on-the-job practices in companies is scarcely developed everywhere in Spain, but the offer of this type of complementary training is considerably higher in central regions - mainly in Madrid and Catalonia- and in tourist areas -the Balearic and the Canary Islands-,

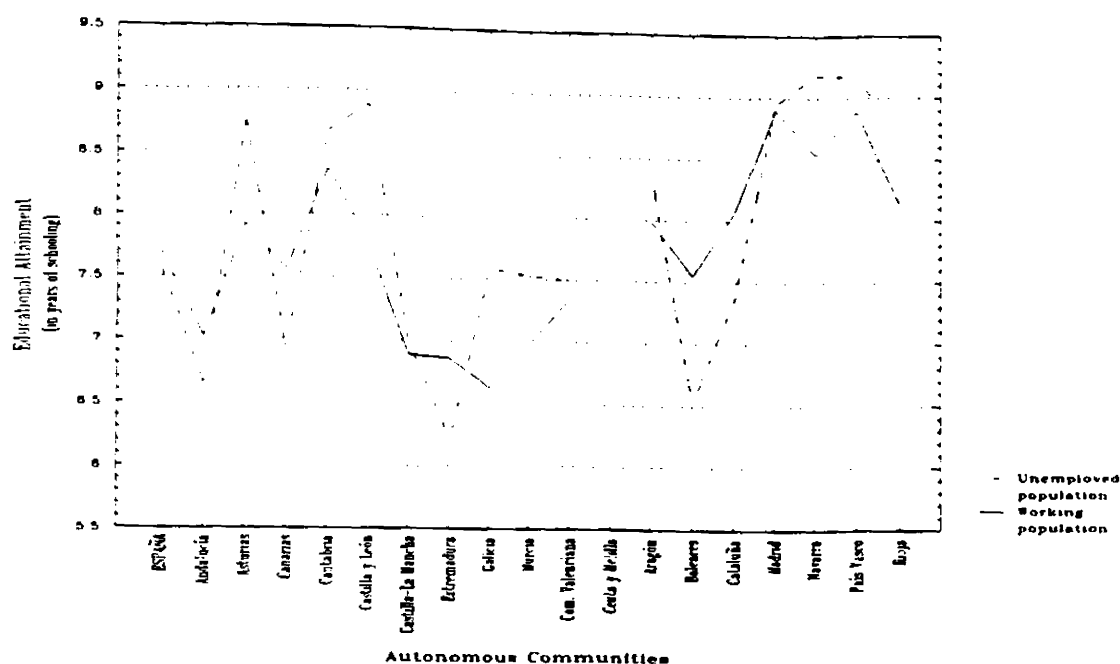


Figure III.10. Educational attainment of working and unemployed populations in 1991.

that in the rest of Spain.

In short, lagging Spanish regions all have strong deficiencies in the educational attainment of their population, which highly limit the genesis of an internal economic dynamism, the attraction of foreign capital and the transformation of knowledge into productive activities. These regions could be divided into three groups with respect to the problems which affect the education of their human resources:

a) *Regions with serious shortages in all educational fields:* These regions stand out by the poor levels of qualification of their human resources in all educational fields -low school enrolment rates, high illiteracy rates, and lower educational level of the active population-. All these factors constitute a serious handicap for the development of economically productive activities. Shortages in skilled labour and qualified personnel, despite low salaries with respect to the rest of Spain circumscribe the possibility of installing

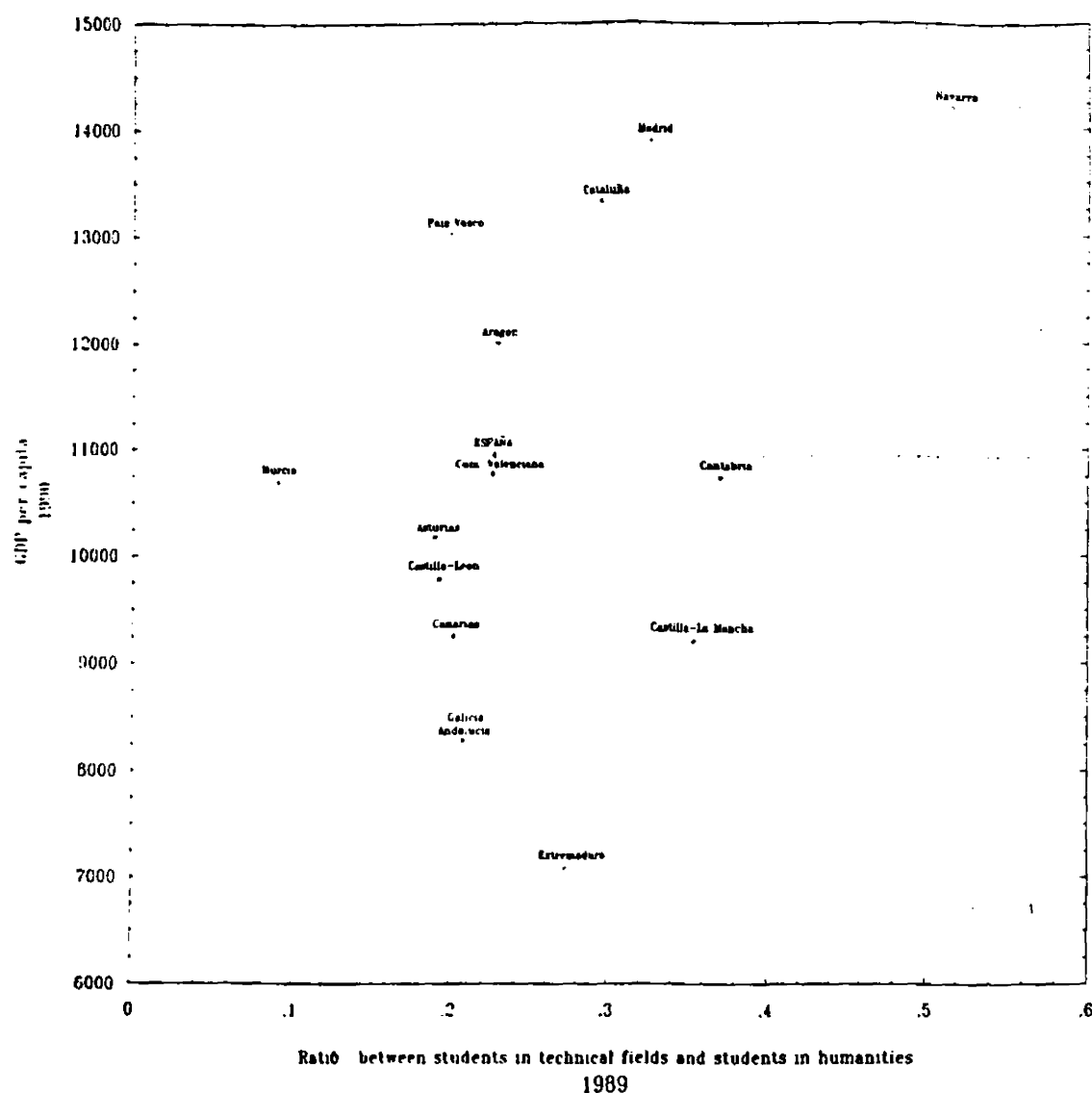


Figure III.11. Ratio between students in technical careers and students in humanities and social sciences with respect to the regional GDP per capita.

production plants and companies which are increasingly dependent on flexible and highly adaptable labour in order to face changes in the demand and to remain competitive. Furthermore, lack of educational and training skills, together with no or little entrepreneurial

tradition thwart most possibilities of endogenous development. Regions included in this category are Andalusia, Castile-La Mancha, Extremadura, and Galicia.

b) *Regions with educational attainment levels around the Spanish average, but with strong imbalances between educational offer and labour market demand:* Low educational attainment in Asturias, Cantabria, and Castile and León is not as much a problem, as the imbalance between the orientation of secondary and university education and the demand of the labour market. Secondary school graduates with no specific technical training, and an excess of university students in humanities and law careers make up armies of future unemployed with little possibilities of entering the labour market in the fields for which they have been trained.

c) *Regions which combine low educational attainment and imbalances between educational offer and labour market demand:* The Canary Islands, Murcia, Murcia and Valencia are regions which are slightly better off than the regions included in the first group, but which share the same problems in lack of technical trainees and skilled labour as the regions in the second group.



CHAPTER IV

THE POLITICAL BASES OF REGIONAL GROWTH

IV.1.- DOES POLITICS MATTER TO GROWTH?

Measuring the relationship between politics and political conditions, and economic growth is a chronic problem. The question of how political outcomes and political structures might influence economic growth -and vice versa- has attracted social scientists for several decades. From the analyses of political participation of Verba and Nie (1972) and Alford and Friedland (1974 and 1975), to Olson's studies of interests groups (1982), the interrelationship between politics and growth has been object of constant attention, both for political scientists and economists. In recent years, political scientists and sociologists have been increasingly concerned with the intertwining of political phenomena and economic conditions. As mentioned in the first chapter, numerous studies have been devoted to the influence of the political orientation of parties in office, trade union membership, welfare state size, government spending and processes of supranational integration on growth trends (Garrett and Lange, 1986; Lange and Garrett, 1987; Lane and Ersson, 1987; Castles and Dowrick, 1990). Institutions and institutional change have also attracted considerable attention. Works by Williamson (1985 and 1993), North (1990, 1991, and 1992), and Frey (1993) have greatly contributed to increase our understanding of the complex interrelationship between institutions, institutional change and economic growth.

Economists, as well, have begun to direct their attention to other fields of social science in their quest for the sources of economic growth. There has been a renewal of interest in the impact on growth of politics and policy; for instance, endogenous growth economists are starting to include policy implementation (Barro, 1991; Barro and Sala-i-Martin, 1992a; Rebelo, 1991; Pack, 1994) and political indicators (Barro, 1990; Alesina and Rodrik, 1991 and 1993; Edwards and Tabellini, 1991; Alesina and Perotti, 1993) as independent variables in their economic growth models.

Researchers working on party systems have not been an exception. According to the two-party models developed by Hibbs (1975) and Tufte (1978) for the United States, the

existence of a left-right alternative leads to the application of different macroeconomic policies depending on the orientation of the party in office. Theoretically, right-wing and liberal options put more effort in controlling inflation to the detriment of unemployment, whereas left-wing parties prefer to pursue lower unemployment levels above curbing inflation¹.

The basic idea behind this hypothesis is that constant patterns of voting in favour of a certain political option (which is then translated into the formation of stable majorities) will give parties in office a greater chance to put their policies in motion. On the contrary, the propensity to changes in the executive is associated with political uncertainty and thus influences the implementation of long-term economic policies (Alesina and Perotti, 1993, p. 3). As Hibbs points out for the American case, there are partisan-based differences in economic priorities. Democratic administrations typically aim for more ambitious unemployment and real output targets than do Republican administrations. Consequently, "unemployment and output (relative to natural, benchmark levels) tend to cycle across partisan regimes" (Hibbs, 1987a, pp. 278). Cycles in partisan control of the presidency in the US and cycles in unemployment and inflation outcomes seem thus to be intimately connected (Hibbs, 1987a, pp. 279). And in his analysis of macroeconomic policies pursued by left- and right-wing governments in twelve Western countries he concludes that these policies "are broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies" (1987b, p. 291). Hence from this point of view, it could be stated -at least for the American case- that politics matters to

¹ From this point of view, if we consider, as Nordhaus (1975) and McRae (1977) do, the elector to be an irrational voter the influence of vote on the macroeconomic policies pursued by political parties can be regarded as either negligible, or as strongly determined by luck. Parties will try to convince the irrational voter with the electoral promises they regard as most successful during the electoral campaign in order to obtain the highest possible electoral results, and then apply whatever policy they consider most useful -or closest to their interests- when in office. On the contrary, if the elector is perceived as a rational voter by parties (Meltzer, 1986; Rogoff and Sibert, 1987; Rogoff, 1987; Alesina, 1988), well informed about the political programmes of the parties competing at the elections and about the policies they will implement when in office, vote and the composition of parliaments become key issues for the implementation of policies the voter considers will improve his or her wealth and welfare.

growth.

However, even if we admit that the political orientation of the party in office has a fundamental influence on macroeconomic policy, and that right-wing parties prefer the control of inflation, while left-wing parties tend to favour policies aimed at keeping unemployment low, the relationship between politics in general, and vote in particular, with growth remains unclear. And it remains unclear because evidence in recent years demonstrates that the neat left-right divide in the implementation of macroeconomic policies is no longer manifest. Firstly, because (due to the greater globalization of the economy and to the problems of pursuing one nation economic solutions) governments across Europe have tended to apply fairly similar economic policies in terms of unemployment and inflation, regardless of their ideological orientation. In a period of greater economic interdependence there seems to be little room for clear cut partisan economic policies. Global markets and global competition are greatly limiting the capacity of governments to implement their own autonomous policies if they want their countries to remain competitive.

Polity and politics have thus not been spared by socio-economic restructuring, and the transformation in voting behaviours is blurring what was considered to be a direct line between the ideological choice of the electorate and the macroeconomic policies applied by governments (Frankie, Mackie and Valen, 1992). In recent years, voting patterns have become more and more unpredictable, electoral politics are becoming increasingly volatile and new parties disrupting the traditional party structure have risen to the fore since the early 1970s. These changes have affected policies adopted by national and regional governments. Contrasts between left and right-wing policies are thus less and less evident. Furthermore, in the last two decades swift institutional changes have swept across Europe. Greater political integration at the European level has been paralleled by regionalization processes in several European countries. Belgium, France, Italy, Portugal, and Spain have faced significant territorial and administrative changes which have converted highly centralized states into federal, regional or 'regionalized' states.

Moreover, it is highly disputable that the left-right divide on which the models were inspired, is reproduced at the European level. As van Kersbergen points out (1992), the social bent of Christian Democratic parties in Western Continental Europe leads them to implement socially oriented policies which differ less from those applied by Social Democratic parties, than those of the Republican party in the United States or the Conservative party in the United Kingdom.

And finally, there is no long-term evidence to support that either inflation curbing, or unemployment policies provoke high or low growth. In fact, the results of left and right-wing policies on economic growth largely depend on the historical circumstances. High growth has been achieved both with more socially oriented, as well as with socially restrictive policies. In contrast, the same socially-oriented policies that were once successful in spurring growth, failed to encourage economic activity under different circumstances. In a similar way, restrictive policies have been successful under certain conditions in determined areas and unsuccessful under different conditions in other areas. Therefore, it is almost impossible to establish a direct link between politics and economic growth. Voting patterns, parliamentary majorities, majority or coalitions governments may lead to the implementation of diverse economic policies. However, diverse economic policies do not clearly lead to different economic outcomes (Nordhaus, 1975; McRae, 1977; Mancha, 1993).

IV.1.1.- Does regional politics matter to regional growth?

If the association of national politics with national growth levels is, at least, difficult to determine, what can we say about the interrelationship between regional politics and regional growth?

Despite the fact that the substantial drift towards regionalization and power devolution to meso levels of government can be considered as perhaps the most significant institutional change that Western Europe has witnessed in the last three decades, the political power and

the relevance of regions as units in cross-sectional political analysis is still far below that of the nation-state. The development and, in some cases, the completion of devolution processes of diverse range and scope, in Italy, Belgium, Spain, France, and Portugal has attracted many researchers to the field of the study of regionalism. However, the great majority of studies on this phenomenon has been limited to traditional subjects in sociology, political science and law. Aspects such as regional identity and regionalism, the assignment of administrative competences and financial resources, the changes in social and cultural structures and even the democratic impulse of devolution have been thoroughly scrutinized. On the contrary, researchers have been somewhat wary of examining the economic implications of the devolution of power to the regions. As Zimmermann points out, the specific role of public institutions and public finance has hardly been directly dealt with on a cross-sectional basis, and then only indirectly included via the analysis of publicly provided goods, such as infrastructure (1990). In most cases, the economic effect of regionalization processes and of regional politics is just mentioned in passing. For instance, Mény (1982, pp. 18-19) acknowledges that regionalization processes in Spain and Italy were conceived as a means to foster economic growth in advanced regions, and to fight underdevelopment in lagging ones. Moreover, in the book *The Rise of Meso Government in Europe* (Ed. Sharpe, 1993), most contributors deal with the issue of the impact of regionalization on growth trends only tangentially. Economists dealing with regional growth have also been reluctant to follow the path of the association between regional politics and growth trends.

Several reasons might be behind this reluctance to tackle the economic implications of politics at a regional cross-sectional level. First of all, lies the limited autonomy of regional administrations to fulfil their own independent economic policies. Secondly, lack of relevant cross-sectional data at a regional level is a severe handicap for comparative policy analysis at a regional level. And last but not least, the lack of a direct and linear relationship between politics and economic growth is magnified in the case of regions.

Nevertheless, some interesting attempts to comprehend and analyze the connection

between institutional decentralization and growth have been carried out in recent years. Some of these contributions are linked to the theory of subsidiarity, which asserts that a greater economic efficiency can be accomplished by means of granting political and economic competences to the most suitable administrative level. Bennett (1990) for example, studies, from a theoretical perspective, the role of different levels of territorial administrations and governments as actors in the genesis of economic growth. He reaches the conclusion that local government activism can be important in fostering development (1990, p. 241). Zimmermann (1990, pp. 254-263), in a comparative study of fiscal federalism and regional growth in Germany and the United States, argues that regional autonomy might have a detrimental effect on national growth, which is compensated for by benefits in terms of equity.

More specifically the links between political conditions and economic growth have developed in three discrete strands. Two of these strands have dealt with the question from a national and cross-sectional perspective, while the other has adopted a regional and case study approach. Interesting hypotheses in order to study the connection between politics and growth can be extracted from all three strands of literature.

The first strand is the endogenous growth literature, which was discussed extensively in the first chapter, and therefore will not be developed in the following pages.

The second approach to the relationship between politics and growth is the corporatist and neo-corporatist literature. Corporatist authors have used first cross-sectional regressions, and later pooled cross-sectional and pooled time-series methods, in order to untangle the influence of national political conditions on growth rates.

Finally, researchers working on the Italian industrial districts or on Baden-Württemberg have constantly highlighted the close association between political and institutional conditions and economic growth on a case study basis. According to these

authors, factors such as the identification of the electorate with a party, the capacity of parties in office to favour the establishment of industrial networks and the ability of intermediate levels of government to set the adequate institutional framework, play a non negligible role in fostering production and thus economic growth.

However, and in spite of the rich literature on the association of politics and institutions with growth based on national-cross sections and on case studies, little has been published about the actual connection between regional politics, policies, and growth at a cross-sectional level. In light of this shortage of scientific literature, some questions arise. Is there any connection between regional politics and growth levels at the European level? Or is it just a place specific phenomenon, limited to industrial districts in Italy and other dynamic areas? And, if this association exists, is it robust? Do active and efficient regional governments contribute to generate greater growth than inefficient or passive ones? Or are regional politics fully unrelated to economic outcomes at a regional level? These are some of the questions which I will address in this chapter. Therefore, I will first review how the scientific literature has dealt with the relationship between politics and growth, in order to extract the main postulates which relate political conditions to economic growth. And then (following a similar logic to the one presented in the empirical analysis in the previous chapter), I will try to determine whether the main postulates of these strands of literature hold in the case of regions in Western Europe.

IV.2.- THE CORPORATIST APPROACH TO POLITICS AND GROWTH.

The relationship between growth and economic outcomes has been one of the main focus of the literature on corporatism. Most authors working on the field coincide that in economies where "organized interests participate directly in the formulation of government policy" (Pontusson, 1991, p. 163), there seems to be an indirect but, nevertheless close, relationship between how the political interests are structured and how are they translated into political arrangements, and the orientation of economic and industrial policy, which, in turn, influences economic outcomes. Bruno and Sachs (1985), Lange and Garrett (1985 and 1987), Korpi (1985), Garrett and Lange (1986 and 1991), Calmfors and Drifill (1988), Freeman (1988) Alvarez, Garrett and Lange (1991), Castles and Dowrick (1990), and Castles (1994) have all highlighted this close relationship using different approaches to the question. Several factors constantly pop up in the analysis of the association between political organization and economic outcomes.

The power, structure and dimension of interest groups is frequently associated to economic policies and outputs. Following Olson's (1982) hypothesis, it has been argued that the proliferation of non-encompassing interest groups is likely to slow down economic growth, whereas the presence of large encompassing interest groups has a positive effect on economic outcomes. Under these premises, the dimension and capacity to negotiate of trade unions has been the main target of this type of analysis. Extensive research has been carried out fundamentally on Scandinavian trade union movements, and on their capacity to participate in and influence on "corporate investment decisions through corporatist arrangements and, specifically, through its participation in the formulation of selective industrial policy measures" (Pontusson, 1991, p. 163). It has been stated that "where unions are encompassing [...] the pursuit of welfarist policies by leftist governments is likely to generate voluntary labor restraint, which in turn should promote an environment conducive to capitalist investment. Furthermore, such restraint can also be expected to increase the

efficacy of leftist policies designed to stimulate business investment that might otherwise have inflationary consequences; macroeconomic expansion and more targeted supply side measures" (Alvarez, Garrett, and Lange, 1991, p. 542-543). Hence, encompassing trade unions and other large interests groups are regarded as capable of pursuing "a collective gain strategy by reducing the attractiveness of organizational 'free-riding' in the form of organizational redistribution" (Lange and Garrett, 1985, p. 798). This collective gain strategy might ultimately lead to improved economic performance (Summers, Gruber, Vergara, 1991, p. 386).

Another factor underlined by the corporatist literature has been institutional sclerosis. It is argued that institutions in countries which have gone through long periods of stability, and have been able to avoid turmoil and upheaval, experience a certain tendency to languish and to become less performant than institutions in countries affected by recent periods of unrest. This is basically due to the fact that in the more stable countries non-encompassing interest groups have had more time and power to develop close ties with the administration which might ultimately lead to the adoption of measures which could ultimately restrain economic performance. This has been checked empirically by Lane and Ersonn who determine that institutional sclerosis is strongly associated with economic growth, particularly in large countries (1987, p. 13).

A third factor which has attracted significant attention is the orientation of political parties in office, either alone or in combination with the organization of labour. Lang and Garrett (1985 and 1987), Garrett and Lange (1986 and 1991), and Alvarez, Garrett and Lange (1991) have thoroughly analyzed the relationship between the political power of the left -and, to a lesser extent, that of the right- and economic performance. They argue that governments in corporatist political economies "may be able to intervene in capital-labor interactions so as to transform what might otherwise be conflictual zero-sum or even negative-sum games into situations from which all societal actors may benefit" (Garrett and Lange, 1991, p. 545). Corporatist governments can thus "be expected to pursue active labor

market policies that facilitate rapid and positive adjustment to changes in international market conditions by the work force" and to "intervene actively in the process of capital accumulation so as to promote productive investment in the national economy" (Garrett and Lange, 1991, p. 546). This can only be successfully accomplished in the presence of encompassing, densely and centrally organized trade unions (Lange and Garrett, 1985 and 1987). In the absence of strong labour organizations, leftist policies would have "deleterious macroeconomic consequences" (Alvarez, Garrett, and Lange, 1991, p. 543), and only rightists policies might succeed. Hence, "countries with symmetrical or coherent political structures -in which labor was strong both organizationally and politically (corporatist cases), or in which labor was very weak on both dimensions (approximating market economies)- should have been able to adjust [...] better than the mixed cases in which the political economies were less coherent (politically strong and organizationally weak, or vice versa)" (Garrett and Lange, 1986, p. 531).

The amount and dimension of public expenditure and of taxation have also been thoroughly scrutinized. Public expenditure and taxation have often been regarded as the best way to measure the capacity of governments to generate public policy and to redistribute the national wealth across the population, contributing to greater equality. And "to the extent that it could be established that redistribution does not undermine, or, better still, actually promotes, economic activity, the traditional case for progressive reform, that redistribution, economic growth and efficiency can be considered as a set of mutually reinforcing positive-sum outcomes" (Castles and Dowrick, 1990, p. 174). Most authors working on corporatism tend to agree that public expenditure and taxation seem to have a positive effect on economic outputs, and that the analogy linking public expenditure to a leaky bucket does not hold in most cases². However, it has been claimed that an exclusive focus on expenditure "distorts

² Summers, Gruber and Vergara have, however, recently adopted a more cautious attitude with regard to the influence of taxation in economic outcomes. They argue that "while it is tempting to draw the inference from our results and some of Olson's discussion that corporatism is in some sense good, because it reduces the cost of raising taxes, this would be premature without a firmer understanding of what lies behind differences in the extent of corporatism. Part of the logic of socialism was the idea that a wise government could internalize everything and so generate efficient

our picture of reality because it diverts our attention away from the full range of means to a given policy objective and biases cross-national comparison in favour (or against - depending on our evaluation of public expenditure for a particular purpose) countries which utilise the expenditure instrument in preference to others" (Castles, 1994, p. 356).

In sum, corporatist literature has stressed that, under certain circumstances and particularly in corporatist societies, there is a significant association between the national political structure and conditions, and the economy. Most emphasis is put in economic outputs (policy issues and the policies adopted), than in economic outcomes (i.e.: economic performance), since the path between politics and economic performance meanders more than the one between politics and policy implementation. Nevertheless, in spite of the difference between economic outputs and outcomes³, it can be stated that the presence of encompassing labour unions, of left wing social-democratic governments, of high levels of governments expenditure and of progressive and highly redistributive taxation systems are frequently regarded as factors that are positively associated with economic results. And that despite the fact that the globalization of the economy has reduced the capacity of governments to implement their own autonomous policies, the influence of domestic political and organizational characteristics on the economy as a whole remains strong (Garrett and Lange, 1986 and 1991). The outcomes of different cross-sectional regressions and pooled time-series analyses are fairly consistent in supporting this hypothesis.

However, the analysis on the relationship between corporatism and economic policies and performance has been fundamentally conducted on a national setting. Cross-sectional

economic outcomes. This has proved wrong, and should give pause about excessively benign views of negotiated alternatives to market resolutions" (1993, p. 407).

³ Putnam puts the emphasis on the idea that political analysis has been more concerned with economic outputs (specific intervention) than the outcomes (the ultimate results). That is, most attention has been centred on health and social security schemes, than on mortality rates, or on environmental policy than on the quality of the air and water, or on economic development programmes, rather than on growth rates. This attitude is a consequence of the enormous amount of factors which impinge on final results and which cannot be controlled (1993, pp. 76-77).

analysis have generally included a set of advanced capitalist economies, with special attention focused on the Scandinavian countries. Almost no attention has been devoted to the impact of corporatism at a regional level, and to the association between organized interests, regional politics, governments and institutions and economic performance, a fact which might severely restrict the application of the corporatist and neo-corporatist postulates to the European regional context.

IV.3.- THE RELATIONSHIP BETWEEN POLITICS, POLICY AND INSTITUTIONS IN THE LITERATURE ON SOCIO-ECONOMIC RESTRUCTURING.

The strands of literature which have more rigorously dealt with the relationship between politics and economic performance at a regional level -although on a case study basis- have been the different theoretical approaches to the process of socio-economic restructuring and its spatial consequences. Researchers on the emergence of the so-called 'new growth spaces' often highlight that the processes of socio-economic restructuring and structural change seem to have opened new opportunities for an increasing association between "the resurgence of specialized and self-contained regional economies and localized subsystems of governance and economic regulation that will replace the era of mass production and mass consumption" (Amin and Thrift, 1994, p. 7). The 'thickening' of institutions (Granovetter, 1985), the 'thickening' of the intertwining of industries and social institutions (Becattini, 1991), the existence of institutionally rich environments (Streeck, 1991), or the increasing importance of 'intermediate government' of economic development at the regional level (Trigilia, 1991) and of 'intermediate' forms of governance (Amin and Thrift, 1995, p. 52) are features which constantly pop up in the literature on this new and successful regional economies in Western Europe. Institutionally rich areas are being increasingly regarded as competitive economies, in contrast to the traditional view that institutions profoundly interfered with the market. The German case is one of the basic examples of this new approach to politics, institutions and growth. As Matzner and Streeck point out, Germany is and has been "a political economy rich in 'rigid' non-market institutions such as strong trade unions, industry-wide collective bargaining, compulsory trade associations like Chambers of Commerce or Chambers of Artisans, a heavily and centrally regulated vocational training system, strong employment protection, statutory participation of workers, etc [...] and Germany is one of the most competitive and prosperous modern economies" (1991, p. 10).

From this perspective, explanations about the economic success stories of institutionally rich regional economies like Baden-Württemberg, the industrial districts in the Third Italy, Rhône-Alpes, or even (the less institutionalized) Western Jutland share in common the strong emphasis on the role played by 'intermediate' politics and policy in order to spur growth in these areas. Similarly, political and institutional arguments are increasingly being used in order to interpret why certain regions have been incapable of superseding traditional economic bottlenecks and have continued to lag behind in the European context. Lack of political autonomy, an excessive dependence on national funding and nationally designed policies, and the incapability of intermediate administrations to provide the adequate public goods and to generate endogenous economic activity, frequently pop up as explanations for the lack of dynamism of the lagging regions of the Italian Mezzogiorno or South Western Spain.

The following sections will review some of the scientific literature which has recently stressed the interaction between economic growth rates and politics, policies and institutions at the regional level. The first section will concentrate on the success stories: that is, those European regions where meso-levels of governance have been associated with other factors to foster growth. Special attention will be focused on the most successful regional cases, and mainly the region of Baden-Württemberg in Germany, and the industrial districts of the Terza Italia, and Denmark and Norway. The second section will review the causes of why long-term institutional and political interventions have not been successful in fostering economic growth in the lagging areas of the Italian Mezzogiorno and the Spanish Western and Southern fringes.

IV.3.1.- THE ROLE OF POLITICS, GOVERNMENTS AND INSTITUTIONS IN THE 'NEW GROWTH SPACES'⁴.

The scientific literature on socio-economic restructuring has underscored that the shift from a mass production 'Fordist' structure, to a flexible production organization in the 'post-Fordist' era, has not only been accompanied by substantial changes in the whole organization of society, but has also brought about new territorial patterns of economic development. As Harvey (1989), Leborgne and Lipietz (1992), Scott and Storper (1992) or Swyngendouw (1992) point out, the globalization of the world economy, the changes in consumer demands, and the flexibilization of production seem to have granted enterprises in local areas a greater room of manoeuvre to set in motion their own production strategies. The blurring of national borders and the integration of the economies would have thus provoked enhanced competition between regions and cities, which up to now had been relatively protected from international competition by trade barriers. Under these new circumstances, local areas with the largest competitive advantages enjoy the best conditions to compete with neighbouring and far away regions. Factors such as human resources, entrepreneurship, the existence of a dynamic industrial and entrepreneurial fabric, as well as the political and institutional conditions and networks become important issues in determining the capacity of any given area to adapt to the new circumstances and, thus, to attain high growth levels.

Regions enjoying the greatest comparative advantages under these conditions become the 'new growth spaces'. In Europe, several of these 'new growth spaces' have concentrated the greatest attention in the last two decades. Much has been written about the economic miracles of the Terza Italia, Baden-Württemberg, and the Rhône-Alpes region. And despite the significant differences in the processes which have determined the recent development of these areas, several common features constantly pop up in the explanations of why these

⁴ I use the term 'new growth spaces' to gather under one expression the economically successful phenomena such as the industrial districts, technologically based centres, the 'diversified quality production' areas, and financial urban regions.

'new growth spaces' are growing at a greater pace than neighbouring areas. The concentration of widespread and articulated networks of small firms, often in the same sector or in related sectors, which via flexible specialization and subcontracting are capable of adapting to the new consumer demands; the combination of economies of scale with those of scope and with external economies; a high degree of innovation in the production structure; and a close association between economic activities and social conditions, are ingredients which are a constant reference when analyzing the economic success of these areas. But perhaps the most significant factor which delimits the formation of the 'new growth spaces' is the institutional factor. Institutions, local and regional governments and governance, and local organization are frequently pointed out as basic features which separate the post-Fordist growth spaces from other territories. As Sengenberger and Pyke stress in the case of the industrial districts "economic success [...] has come not so much through advantageous access to low cost factors of production -cheap labour, land or capital- as from particularly effective social and economic organisation based on small firm" (1992, p. 3). The basic characteristic of the 'new growth spaces' is that local small firms become integrated with business associations, trade unions, the local and regional government and other local actors in networks that contribute to a better use of local resources. Local community and government play, via the promotion of regionally and locally based agencies, a significant role in the formation of this organizational structure based on the small firm (Pyke and Sengenberger, 1991, pp. 17-18). The existence of systems of institutions among which we find the public administration, the local organization of political parties, trade unions and other public and private economic, political, cultural and religious bodies guarantee the functioning of the necessary organizational structure to foster economic growth (Becattini, 1991, p. 53).

Similarly, in areas where systems of 'diversified quality production' have been established, the institutional and political environments play a substantial part in the development of economic activity (Sorge and Streeck, 1988). As Streeck states, in spite of the drive towards de-regulation which became common in the last decade especially in the

United States and the United Kingdom, rates of growth during the 1980s illustrate that "institutionally impoverished economies that rely solely on markets and hierarchies for the governance of economic activities do not necessarily perform better than societies where economic behaviour is more socially regulated" (1991, p. 23). Indeed "a repertory of social institutions that exceeds the neoclassical minimum may in specific conditions make a positive contribution to competitive market performance" and thus "strong non-market institutions that modify and partly suspend individual market rationality and unilateral managerial control [...] make for higher efficiency" (Streeck, 1991, p. 24).

In a world which seems to be affected by increasing economic competition among subnational spaces, neither private interests nor national administrations are any longer capable of supplying the needed *collective goods at the local levels* to insure the constant production of competitive economic output (Streeck, 1991). The creation of collective goods requires thus the intervention of intermediate institutions and regional organizations, since "it is not profitable for the individual actors concerned contribute to their production" (Trigilia, 1991, p. 314). Following Streeck, intermediate and regional institutions are in the best position to supply the three basic collective goods to insure the most efficient use of resources by local firms operating in the market (Streeck, 1991). First of all, there is a need to achieve a *congenial organizational ecology*, that is, the "institutional mechanisms that overcome the suspicion among competitors, insure firms against opportunistic defection of partners from implicit contractual understanding, and enable firms to invest not only in their own performance but also in that of other firms in their environment, thereby contributing to the collective good of a dense organisational ecology of potential strategic allies" (p. 35). Secondly, local and regional governments should provide for the necessary *redundant capacities* to insure the re-adaptation of local firms to the new and more competitive market conditions. Private interest alone is incapable of supplying the broad and high skills, the polyvalent organizational structure, the decentralized structure of decision-making, and the social peace, which are needed in the market conditions in a post-Fordist environment (Streeck, 1991, pp. 39-42). The pursuit of maximum profit strategies by firms in a more

competitive world leads, in contrast, to an impoverishment of the skills of the workforce and is likely -at least in theory- to increase social conflict. Only via the institutional intervention can this tendency of the market be effectively countered, assuring thus a more efficient use of local resources. Finally, local and regional institutions have greater chances of guaranteeing the collective production inputs in competence, ecological synergies, knowledge and skills that facilitate the adjustment of firms to the new production environment. In sum, the efficient integration of any sub-national space in the new economic conditions greatly depends on how successful is the *institutional exoskeleton* in providing a steady output of the collective goods needed by firms to compete in the market; and the *institutional exoskeleton* "constitutes an open door for political regulation and intervention. In this sense, politics forms an integral part of the rich social dimension" which determines the economic success of any area in a post-Fordist world (Streeck, 1991, pp. 46).

However, why should we look to intermediate levels of governance and regional institutions, and not national ones in order to provide the most adequate institutional exoskeleton? Traditionally, national politics, policy and institutions have supplied the needed collective goods for economic output. Nevertheless, it has been stated that the process of socio-economic restructuring and the supposed blurring of national borders are making institutional intervention at a national level less and less operational. From this perspective, national institutions are often considered as too remote to be able to respond effectively and rapidly to local and regional needs of collective goods, and as too rigid and distant to be capable of articulating the negotiating bodies or agencies through which the interaction of local economic and social actors is achieved and networks are set. Regional institutions and the local political and collective organization appear to be the most adequate level of governance to secure the provision of collective goods. Several reasons have been advanced as to why this intermediate level of government becomes a significant element in the process of the building up of the consensus needed to involve all the economic, social and political actors in the process of development. The economic spectrum of firms and companies working in a certain area is territorially embedded in the social and political relations

dominating that area (Grabher, 1993). Hence the intertwining between political and economic actors, with a large number of other conditions, such as the family and bourgeois traditions, the social and economic community practices and the local trade and industrial traditions, determine to a large extent the growth potential of any given space. The success of networks of small industries and of associative processes should therefore be largely based on the capacity of local institutions and local government bodies to promote these types of association and to stimulate the establishment of links based on the common interests of all the actors in the local arena. Therefore, "the creation of intermediate level structures that would facilitate economic restructuring is the top priority to industrial policy and the goal of the economic strategy" (Hausner, 1994, p. 22).

Nevertheless, the functions adopted by regional and local politics, policies and institutions in the success of the 'new growth' areas is far from being homogenous. In spite of the above-mentioned common features which characterize the relationship between politics and growth in certain European regions, the specific models of interaction between intermediate levels of government and governance and the economic arena differ across regions. The intertwining between political, institutional and economic agents is achieved differently in the Italian industrial districts, than in similar formations in Denmark and Norway or in the German *Land* of Baden-Württemberg. In the following pages, I briefly review how this interaction is achieved in these three types of 'new growth spaces'.

IV.3.1.1.- Politics, institutions and growth in the Italian industrial districts.

Although there is a growing chorus of voices which tends to see the economic-boom of the Italian industrial districts more as an interlude than as "the emerging successful form of economic organisation" (Trigilia, 1992a, p. 33), Italian industrial districts are still the most studied form of post-Fordist economic organization. These socio-territorial entities, characterized by the presence -in a naturally and historically determined area- of a social community which constantly interacts with a network of industrial enterprises (Becattini,

1991, pp. 52-53), are perhaps the paramount example of how certain areas have been capable of adapting to the new socio-economic conditions of the post-Fordist era, and of giving a local response to the increasing competition in the globalized markets. As Brusco (1986) and Trigilia (1986) mention, the basis of the Italian industrial districts, located fundamentally in the regions of Emilia-Romagna, Tuscany, Marche and Veneto, lies in the formation of networks of small firms with a highly specialized division of labour in traditional manufacturing sectors. Thanks to the high level of specialization of these small firms, the whole production process is achieved within the industrial sector, which replaces the function of the large company, with the advantage that in these areas external economies and economies of scope are added to the traditional economies of scale (Becattini, 1991). In addition, Italian industrial districts are identified by their technological dynamism and by an apparently paradoxical combination of competition and co-operation among firms (Piore, 1991, p. 69).

Explanations of the relative success of the Italian industrial districts have tended to highlight the capacity of these enterprises to adopt original and ingenious solutions to respond to changes in market conditions, and to introduce relatively simple technological innovations in the production process (Storper and Scott, 1989; Porter, 1990). Yet, as Trigilia points out, technology and product innovation are not the only feature which leads to the formation of industrial districts. If they were based only on technology and product innovation, the phenomenon of industrial districts would have been widespread across large parts of Europe. The emergence of industrial districts depends "less on technological constraints than on the overall institutional context and past experiences" (Trigilia, 1992a, p. 35).

Trigilia (1986 and 1990) and Bagnasco (1988) argue that the influence of the institutional and political settings in the area known as the *Terza Italia*⁵ -or the Third Italy- in the formation of industrial district is closely related with the existence of political practices

⁵ The Central and North-Eastern Italian regions of Emilia-Romagna, Friuli-Venezia Giulia, Marche, Toscana, and Veneto.

and institutions connected with Catholic traditions in the North East, and the strong Communist and Socialist movements in the Centre of Italy. Constant patterns of vote in national and regional elections have been the norm in these areas. The Christian Democratic party has outscored left wing parties in the plains of the Veneto, while the strongholds of the Communist party have always been located in the regions of Emilia-Romagna, Marche, Tuscany, and Umbria. Regional governments in the Veneto have been dominated since 1970 by the Christian Democrats, whereas the Communist party -with absolute majorities or in coalition with other parties- has remained in office in the Central regions. The presence of pervading, albeit distinct, political cultures, has helped to mould a strong regional identity which has been one of the main contributions of politics to the phenomenon of the industrial districts. The strong identification of the political bodies with their electorate, and of the electorate with a regional identity has been the basis for the formation of political subcultures which, in turn, have been fundamental in the involvement of large interests around industrial networks. Local and regional level alliances among regional governments, employer associations, labour groups and political parties have been the norm and the basis for the construction of common interests (Benton, 1992, p. 50-51). In this context of close interaction between politics and the civil society, regional administrations and personnel are "keen to learn from others and to apply the lessons" (Cooke and Morgan, 1994, p. 91), in order to achieve the maximum benefit for the region. Moreover, and in contrast to the evolution in the Italian Mezzogiorno, the emancipation of politics from civil society has made politics more independent from the family and private interests, and more strongly tied to the defence of collective interest. The market has thus become institutionalized (Trigilia, 1992a, p. 37).

One of the aspects of the institutionalization of markets is the participation of institutions and regional and local administrations in promoting inter-firm co-operation. Under conditions of normal free markets, it could be supposed that the firms which make up the industrial districts would compete with each other rather than co-operate. Under these conditions, the normal business strategy would be to achieve a larger market share or try to

outproduce competitors (Porter, 1990). However, in industrial districts both inter-firm co-operation and competition become the most significant features (Kristensen, 1992, p. 124). Although this co-operation is largely to the benefit of firms, it is not only achieved via their sole interaction. As in the case of the provision of collective goods, the attainment of co-operation becomes a time and resource consuming task, which generates increased costs. In addition, free riders could benefit from efforts by other firms to achieve this co-operation. As a consequence, "many small (and even medium-sized) firms are not only reluctant to engage in such an endeavour but are, in fact, inhibited to join in due to their restricted organizational capacity" (Semlinger, 1993, p. 452). It could thus be envisaged that the private interest of a group of small firms with little resources would not suffice to accomplish the level of co-operation needed to be successful in a more competitive market. In regions where there is a strong regional identity and a solid link between social, political and economic agents, the task of attaining inter-firm co-operation is fostered by the intervention of intermediate levels of government. Regional political bodies and business associations and chambers of commerce consciously encourage this type of co-operation between firms in order to organize and structure the local economic realm. This has been one of the main features of the Italian industrial districts, where serious attention has been paid to the development of a strong and decentralized system of institutional support to industries (Best, 1990).

Two possible methods are the most used by regional governments in the Third Italy to attain stable inter-firm co-operation and to provide institutional support to SMEs. In first place, local and regional governments can promote negotiations and encourage the formation of associations of entrepreneurs, and chambers of commerce at the local level which become fora of active collaboration between firms and also the basic links between the firms and the environment. The second and perhaps most usual way is to create regional agencies that provide a support system tailored to the needs of its SMEs (Cooke and Morgan, 1994, p. 109).

The practice in Italian industrial districts suggests that the active intervention of regional agencies can be very effective in the promotion of production, and thus in the genesis of growth (Pyke and Sengenberger, 1992, p. 25). The region of Emilia-Romagna is a paradigmatic example of how this support to SMEs is achieved. A network of regional agencies has been created in order to assist SMEs and to help them to adapt to the changing market conditions. At the heart of this institutional structure lies the ERVET (Ente Regionale per la Valorizzazione Economica del Territorio). The ERVET tries to integrate the potential of public and private sectors, of credit and financial institutions, entrepreneurial associations, and chambers of commerce, and has become the primary interface between the region's SMEs and national and international sources of investment capital (Cooke and Morgan, 1994, p. 109-112). Other type of support and services are supplied by agencies related to the ERVET decentralized network. These include sectoral and functional agencies. Among the sectoral agencies, there are textile information centres (CITER in Carpi), service centres for farm machinery (CESMA in Reggio-Emilia), centres for the upgrading of the shoe industry (CERCAL in San Mauro Pascoli) and service centres for the upgrading and development of the building industry (QUASCO in Bologna). Functional agencies include the centre for the technological development of Emilia-Romagna (ASTER in Bologna), the regional centre for research, technological consultancy, products quality assurance, quality systems processes and certification (CERMET in San Lazzaro Savena), the centre for the upgrading of subcontracting (RESFOR in Parma) and the service centre for export development (SVEZ in Bologna). The institutional network of support to SMEs also involves financial tools, training agencies, promoting and service companies, and university consortiums (Cooke and Morgan, 1994).

Similar networks of development agencies have become a powerful tool not only for the improvement of co-operation between SMEs and the reinforcement of networks of firms, but also for the creation of important synergies by means of technological transfers, export assistance contributing to the creation of high quality and export oriented industry in the regions of the Terza Italia. In addition, the institutional networks have contributed to the

establishment of closer links between industries and other institutions and social and political agents, becoming thus one of the key elements in setting up the basic conditions for the formation of industrial districts.

IV.3.1.2.- The role of politics and institutions in the development of industrial districts in West Jutland and Southern Norway.

Western Denmark and Southern Norway have also witnessed the development of 'new growth spaces' in the last two decades. Agglomerations and networks of fairly specialized small firms have experienced an important economic boom in recent years. These networks tend to be spatially concentrated in former rural areas of Western Jutland and Southern Norway in which the strong local craft and entrepreneurial traditions, as well as practice in self-employment have played a crucial role in the rise and development of these industrial networks. The most significant cases of this type of industrial districts are the knitwear and garment district of Herning-Ikast and the furniture industry of Salling, both in West Jutland (Kristensen, 1992), and the areas of the 'Engineering Valley' to the southwest of Oslo (producer services); Horten (electronics industries); and Arendal (leisure boat-building industry) in Southern Norway (Isaksen, 1994).

These concentrations of small industries in Western Scandinavia share numerous common features with the Italian industrial districts. As Kristensen argues, in both cases the structure of districts is "oriented towards small, family-owned firms, organised on a decentralised, specialised basis, with the individual units and the networks to which they belong exhibiting great flexibility" (1992, p. 169). With the exception of the Norwegian 'Engineering Valley', the Scandinavian industrial districts have progressed not near traditional Fordist mass-production havens, but in small and medium-sized towns which used to service rural environments, and in which traditions of local entrepreneurship were deeply rooted. A long heritage of rural co-operatives has been recycled and adapted to the crisis in agriculture and has been the seed for co-operation among small and medium-sized industrial

firms in the area. Knowledge of the local environment and personal contacts have further encouraged co-operation between firms. Hence, co-operation is often not the consequence of pre-established strategies by local enterprises, but the result of personal ties and relationships between entrepreneurs. Nevertheless, co-operation does not thwart competition among firms. Most firms have one or several products on the market, while subcontracting to other firms is also a usual practice. This double strategy is a consequence of the fact that most firms consider that relying solely on subcontracting implies too high a level of dependency.

Competition is not based upon cutting down costs by wage cutting and engaging low paid workers. Under the conditions of almost universal unionization of workers in Scandinavia⁶, such strategies would be impossible to follow. Instead competition is based on factors such as quality production and design. As in the case of the Italian industrial districts, local networks of SMEs in West Jutland and Southern Norway have also "deliberately pursued strategies aimed at the high quality, design-conscious, export market (Kristensen, 1992, p. 146).

Several other factors common to Italian industrial districts like the maintenance of craft tradition and capability, the presence of well-developed service infrastructures, or the existence of close family ties within and across firms are also discovered in these areas. The result is a very high embeddedness of small firm networks in local social communities which provides to these areas with a clear character of industrial districts.

It is in the political and institutional realm, where some of the greatest differences between the Scandinavian and Italian model of industrial districts are observed. Similarly to the Italian case, industrial districts in West Jutland and in Southern Norway have grown in what can be considered as an institutionally rich environment. The presence of strong trade

⁶ The level of trade union membership in West Jutland, as Kristensen points out, despite being one of the lowest in Denmark is not far below the 80% threshold (1992, p. 156).

unions is possibly the most significant institutional feature. High trade union membership has however not impeded a strong co-operation between employers and employees, and vice versa. On the contrary, it has fostered it. The result of this co-operation are lower strikes than in neighbouring areas. Nation-wide institutions are also present in determining aspects such as the establishment of technical schools and apprenticeships. Nevertheless, the absence of intermediate or regional levels of governance and government in Denmark and in Norway implies that industrial districts in these countries lack one of the basic pillars which contributed to the development of industrial districts in the Third Italy.

One of the consequences of the absence of intermediate governments is the "lack of political consensus that exists in the Red Belt in Italy, which is reinforced by the strong representation of regional interest by trade unions, associations of artisans and other organisations" (Kristensen, 1992, p. 127). There is no political, institutional or administrative body which can fulfil the role played in the Terza Italia by parties, regional agencies and regional governments. The main consequence of this is that co-operation between firms is achieved in a much more informal way. Close links which are established at the local level rely more on close personal relationships than on well structured networks co-established by local institutions. Contact with firms outside the industrial district is in general not the result of active institutional intervention but of the personal links and the experience of local entrepreneurs.

Another consequence of the lack of the institutional structure provided intermediate levels of government is that the size of industrial districts tends to be much smaller than in Italy. The role of regional institutions and agencies is fulfilled, to a larger or a lesser extent by local administrations whose scope, budget, and competences are limited. Most industrial districts are thus either circumscribed to one municipality, or to two or three municipalities working together. Nevertheless, common industrial interests and close co-operation between municipal bodies have resulted in demands to create regional bodies capable of organizing and formulating local industrial strategies in areas such as the industrial district of Herning-

Ikast.

Consequently, the lack of political intervention at a regional level has resulted in unsatisfactory levels of association between enterprises. In contrast with the Italian case, there are almost no organizations of small firms at a local level and no agencies to act as links between firms, local and regional politics, and national institutions. Hence, the capacity of these industrial districts to generate long term industrial strategies is curtailed by the absence of intermediate levels of government in Scandinavia.

This absence however does not mean that the role of politics, policy, and institutions at the national and local level in the formation of industrial districts is to be disregarded. National political events had a crucial influence in the early stages of the economic success of this area. As Kristensen recalls, the 1973 Danish general elections were one of the turning points which determined the entry of small enterprises and entrepreneurs into the arena of national politics. Resentment against what was considered excessive taxing on SMEs by the national government in order to finance the welfare state was translated into high electoral results in Western Jutland for the Glistrup's tax revolt party. Social Democratic governments received the message that was sent from these areas and started looking for a new compromise between the industrial districts and the welfare state. "New programmes to help small enterprises with finance and technical assistance were introduced; technology centres were created in every county; and rules changed so that entrepreneurs could claim unemployment insurance; even programmes to help the unemployed start their own business emerged" (Kristensen, 1992, p. 161). Other national programmes have also contributed to the supply of the skilled workers needed by the SMEs engaged in flexible production. Regional technical schools have been established, and local governments have been actively engaged in attracting those branches more adapted to the needs of local firms.

In sum, although the association between clusters of SMEs and politics is less developed in industrial districts in Scandinavia than in the Third Italy, it can be said that

political conditions have played a non negligible role in the economic success of these areas during the late 1970s and 1980s. Whether this economic success will continue will largely depend on how the interaction between political and economic conditions will be conducted in the future.

IV.3.1.3.- Growth in an institutionally rich environment: the case of Baden-Württemberg.

The German *Land* of Baden-Württemberg has been regarded by most scientists working on the processes of socio-economic restructuring as one of the most successful examples of high growth in an institutionally rich environment. Despite a recent slowdown in growth levels, Baden-Württemberg is -together with Hesse and Bavaria- one of the three fastest growing *Länder* in Germany. High levels of growth in Baden-Württemberg have been closely associated with the expansion of the manufacturing sector during the last three decades, and the economy of the region has undergone a major structural change since the end of world war II. From being a fundamentally rural and craft-oriented region, in the span of four decades Baden-Württemberg has succeeded in articulating a very large and complex network of manufacturing firms, which constitutes the basis for the economic progress of the region. Automobile production, mechanical and electrical engineering are the leading sectors within this network. Local large firms like Daimler-Benz, Porsche, Bosch, Standard Elektrik, together with foreign firms such as IBM, Sony or Hewlett-Packard make up the pillars of the industrial structure of the region. This industrial backbone is surrounded by a large network of large, medium and small-sized enterprises, making the region one of the major manufacturing states in Germany.

The manufacturing system in Baden-Württemberg shares several common characteristics with industrial districts in Central Italy and other parts of Europe. Alongside a strong competition based mainly on high quality production and not on low wages, firms

in the region have developed strong links through co-operation. Complex subcontracting chains which involve large firms and SMEs, or just networks of SMEs, are the most usual way of co-operation. These subcontracting chains generate large external economies and economies of scope, which are especially evident in the area around Stuttgart, where the co-existence of large companies with networks of SMEs attains its peak (Breschi, 1993, p. 129). It is precisely in this combination and co-operation of an oligopolistic core of large companies, with a dynamic population of SMEs where lies the key of the relative success of the economic model of Baden-Württemberg (Breschi, 1993, p. 129).

Furthermore, in Baden-Württemberg there is a strong identification of firms with the traditions and the surrounding environment. As Semlinger indicates "industry in this south-western part of Germany has its roots in a system of commercial cottage industry and artisan production, which in turn emerged from the specific character of inheritance on the land (partible inheritance), rested on the people's (protestant) work ethic and -not least of all- was supported by a correspondingly targeted public policy" (Semlinger, 1993, p. 447).

As in the case of Italian industrial districts, the regional government and institutions have played a significant role in the development of inter-firm co-operation and in the creation of industrial networks. Active support by regional politicians and institutions for the development of industry has been a constant since the formation of the *Land* Baden-Württemberg in 1952. However, the development of industrial policies reached its climax during the 1980s, when the Minister President of the region -the Christian Democrat Lothar Späth- and his cabinet started leading a very active policy of support for local SMEs, which led critics of his government to consider that the region was leading a 'neo-mercantilist' policy (Kloten, 1987). Indeed, technological and industrial policy became the centrepieces of the modernisation strategy of the Christian Democratic government of the region (Schmitz, 1992, p. 101). This political support has been translated into an industrial policy which, in spite of having maintained "the traditional maxim that public support of private business should restrict itself to improve the ability of self-help" (Semlinger, 1993, p. 450), has led

to the creation of an advanced and effective institutional infrastructure of firm patronage and promotion. The main objective of this industrial policy has been "to help SMEs to help themselves in adjusting to new technologies" (Cooke and Morgan, 1992b, p. 3). The result is that Baden-Württemberg "has a dense network of intermediary institutions that functions as an industry-support architecture which mobilizes to seek out ways of assisting business" (Cooke and Morgan, 1994, p. 99).

However, as Schmitz (1991) and Semlinger (1993) point out, the support provided to SMEs by local and regional governments in the region is nothing new. It is the continuation of a long tradition which can be traced back to the mid 19th century, when institutions like the Central Bureau of Trade and Commerce were set up by the Kingdom of Württemberg in order to promote private business. This secular tradition was continued throughout this century and started to reap its fruits since the end of the second world war.

In recent years, support for companies by regional governments and institutions has adopted several models. In first place, industrial policy in Baden-Württemberg has focused on technological development and innovation, especially in small and medium-sized firms (Jürgens and Krumbein, 1991). It is in this field where the *Land* is pursuing its own autonomous agenda, with few links to the rest of Germany (Cooke and Morgan, 1992b, p. 3). A Venture Capital Fund (*Mittelständische Beteiligungsgesellschaft*) has thus been created which subsidizes investment in technology. The appointment of a Commissioner for Technology Transfer in 1982, who is directly responsible to the Minister President of the Region has been a further step in this direction. In addition, a network of Technology Transfer Centres has been established. This network, mainly attached to the polytechnics, helps industries and firms directly with R&D support (Semlinger, 1993, p. 449). Other forms of technological assistance to SMEs are provided by the Steinbeis Foundation, whose main objective is to support SMEs in the regions through consulting services and technological transfer.

Another form of intervention by regional institutions in order to support networks of industries has been the Regional Trade Bureau (*Landesgewerbeamts*). Since its foundation in 1952 this institution has provided consulting services, information and on the job training for SMEs in the regions. It has also encouraged the establishment of direct links between companies and the transfer of technology.

Education and vocational training have been another major path for co-operation between institutions and firms. The fact that Baden-Württemberg's manufacturing system heavily relies on highly skilled labour has created a need for institutions to supply the broad and wide redundant skills needed for an adequate functioning of the economy (Streeck, 1991). Regional institutions have adopted an active role in this sense. The regional government has long been supporting apprenticeship training. This aid was particularly evident during the period 1986-1989 when it "spent about 150 million DM to support the start-up and modernization as well as the running costs of Joint Training Centres" (Semlinger, 1993, p. 37). As a whole, the vocational training system has acted in Baden-Württemberg -as in other parts of Germany- as a means to enhance further co-operation between institutions and industries.

The goal of the regional government of adapting the skills of local human resources to the industrial environment is further reflected in the creation in 1974 of the Vocational Academy of Baden-Württemberg (the *Berufsakademie*). This Vocational Academy provides vocational education to "university-level students who seek a shorter, more practical training rather than a more theoretical one" (Semlinger, 1993, p. 449).

However, the field in which institutional intervention has been most successful has been that of the promotion of inter-firm co-operation. The Regional Trade Bureau has played an active part in substituting market deficiencies for the achievement of co-operation. This regional government agency has provided subsidies for consulting tasks regarding the promotion of networks of firms, has funded travelling expenses to network meetings and up

to 50% of the costs of the development of a network or of a concrete joint project. In addition, it has provided personal assistance which has proven to be essential to the development of inter-firm co-operation.

The creation of associations of SMEs has become another successful way to promote inter-firm co-operation. The Regional Trade Bureau, for example, actively collaborated in the setting up of the Committee of Suppliers Baden-Württemberg, an association whose goal is to promote the participation of SMEs in important fairs. Apart from organizing a meeting for all the SMEs with problems to participate in fairs, the Regional Trade Bureau has ever since constantly encouraged the meeting of the suppliers and the exchange of information and experiences among enterprises within the group. The Steinbeis Centre for Quality Management is another initiative of an agency promoted through co-operation of industries. The goal of this centre is to help SMEs "to cope with the increasing pressure from large customers to modernize the quality control system of the enterprise" (Semlinger, 1993, p. 453). These associations, together with the chamber of commerce, not only act as permanent forums of dialogue and co-operation between firms, but also play -as government institutions also do- an active role in compiling and spreading essential technological and commercial information. They are as well powerful lobbies representing the interests of SMEs in front of the regional political bodies and institutions (Breschi, 1993, p. 137). And most of these associations and the Chambers of Commerce are not only organized at the regional level, but also at the district and local levels.

In short, the regional government and the institutions of Baden-Württemberg have worked together with industries and firms in order to supply what Streeck defined as the necessary redundant capacities, the congenial organizational ecology, the polyvalent organizational structure, the social peace, and fundamentally, the necessary co-operation needed for a better use of local economic resources under the new market conditions. This does not mean, as Schmitz underlines, that the political drive by the regional government is solely responsible for the high growth levels experienced in Baden-Württemberg during the

last two decades. The industrial model of the region was already present before the political initiatives of the 1980s were set in motion (1992, p. 101). However, it must be acknowledged that the institutional environment and the networks set up by the regional level have validly contributed to the genesis of growth in Baden-Württemberg in the last two decades.

IV.3.2.- POLITICS, POLICY AND GROWTH IN LAGGING REGIONS.

Not always politics, policies and institutional intervention favour economic efficiency, as has been the case in the 'new growth spaces'. In other areas it has been argued that the combination of politics, institutions and the economy has either not had any significant effects on economic growth trends or, in certain cases, has even rendered difficult the pursuit of autonomous economic activity and, thus, of economic growth. Numerous authors studying lagging regions in Europe have reached the conclusion that the origins of the persistence of backwardness should not be searched for in strict economic barriers, but in social and political conditions (Trigilia, 1992b, p. 7). From this point of view, political conditions and long traditions of political intervention in the areas of the Italian Mezzogiorno, the Spanish South West, Portugal, or Greece, have not only been incapable of encouraging the development of economic activity in those areas, but also have had pernicious effects on local entrepreneurship. Transfers of industrial complexes, the endowment of infrastructure, or the investment in human resources have not sufficed to overcome the barriers which limited growth potential in those areas (Cafiero, 1991). Hence, when most traditional development bottlenecks are slowly surmounted, the influence of politics and policy in the lack of economic dynamism becomes more evident.

The following pages make up a review about why long-term political conditions and institutional intervention have not been able to promote the necessary autonomous economic activity to guarantee economic progress. The analysis will focus on those two groups of

regions that have attracted the most attention: the lagging regions of Southern and Western Spain, and, above all, the Italian Mezzogiorno.

IV.3.2.1.- Public intervention, development policy, and growth in the Italian Mezzogiorno.

Whenever the terms economic growth and Italian Mezzogiorno come together, they generally describe what has been considered an exceptional situation. Several decades of robust institutional intervention, by means of the implementation of an active development policy, have not succeeded in setting the bases for an autonomous economic development and for the maturation of civil society. In contrast to what was experienced in the 'new growth areas', political and institutional intervention in the Mezzogiorno has been accompanied by a strong dependency of Southern Italian society on the public sphere and by old and new conditions of social degradation (Trigilia, 1992b, p. 7). This evidence has led to the development of a whole body of scientific literature on the *Problemma del Mezzogiorno*, which has flourished in the last thirty years not only in Italy but also abroad. Thousands of pages have been written on the causes of the persistent backwardness of this area with respect to the rest of Italy and hundreds of alternative policies have been proposed in order to tackle the chronic underdevelopment of the region.

The exceptional consideration of the Mezzogiorno is by no means constrained to academic circles. It also reflects the reputation the regions of the Mezzogiorno 'enjoy' in the rest of the country and abroad. In fact the sole name of Mezzogiorno is immediately associated with criminality, backwardness, political clientelism and assisted economy⁷. The image of the Mezzogiorno has, thus, been radicalized and therefore the problems of the

⁷ A study conducted by the CENSIS on the external image of Sicily, one of the emblematic regions of the Mezzogiorno, through the analysis of articles alluding to the region during 1991 in national newspapers came to disheartening results. References to Sicily related to criminality (39%), institutional relations (25%) and politics (20%). The economy and every day life in the island were almost absent from the newspapers (CENSIS, 1992, p. 80).

Italian South are to a certain extent considered to be isolated from those of the rest of the country.

Institutions and the administration have also fostered this picture of exceptionalism. The problems of the Mezzogiorno have for long been treated separately from those of the rest of the country. The regions in the Italian South have long benefited from an extraordinary intervention -in addition to 'ordinary' sectoral interventions- which was conceived to overcome the structural and territorial constraints of the area and nurture development.

And indeed the Mezzogiorno differs from the rest of Italy. The average GDP per capita in 1990 was just 56.6% that of the Central and Northern regions, practically at the same level it was in the early 1950s (Trigilia, 1992b, p. 38). Public expenditure in the last four decades has contributed to a noticeable rise in personal income in terms of purchasing power. However, the growth of personal income has not been paralleled by a similar increase in production capacity. As Trigilia underlines, public intervention has not been capable of triggering -with the exception of some areas where a certain dynamism has been observed- an autonomous development, or, at least, experiences of local dynamism (1992b, p. 71). Public expenditure is more oriented in the South of Italy towards the maintenance of income levels than towards the development of production structures (Trigilia, 1992b, p. 71-72). And, in spite of certain improvements in some social areas like education and health, the gap between the Mezzogiorno and the rest of Italy in the social arena is still enormous. Crime rates have increased dramatically in the last decades; birth rates are much higher than in the rest of Italy; global, and especially female, activity is much lower than in most European regions, and unemployment and youth unemployment rates are only paralleled by those in the South of Spain. The special circumstances of the Mezzogiorno become thus an enormous handicap which reduces its potentialities of economic development. Problems like criminality, unemployment, clientelism and the lack of infrastructure and equipment curtail the

potentialities of growth in most of the Mezzogiorno.

IV.3.2.1.1.- The 'exceptionalism' of the initial economic conditions of the Italian Mezzogiorno.

Since its incorporation in the Kingdom of Italy, the Mezzogiorno has remained the most underdeveloped area in the Italian context. Its relatively isolated position with respect to the main communication axes, the weakness of its markets and of a solid industrial fabric and the lack of basic infrastructure became almost unsurmountable obstacles for the South.

Internal contrasts within the Mezzogiorno are nevertheless evident. Botazzi (1990) and Trigilia (1992b) delimit two areas showing opposite signs of economic dynamism: on the one hand, the Adriatic coast (Abruzzo, Molise and Puglia) witnessing the appearance of what appear to be the first stages of a flexible industry, and, on the other hand, the Tyrrhenian coast (Campania, Calabria, Sicily) which had an already frail industrial structure developed with the aid of the extraordinary intervention during the 1960s and early 1970s, and which is falling apart without signs of any type of recovery ahead (Botazzi, 1990, p. 145-6). In the less dynamic areas of the Thyrrhenian regions there is a huge increase in the service sector. Nevertheless, this increase is not paralleled by a similar enlargement in productivity and income, since it occurs in unskilled service jobs and administrative occupations.

The South of Italy does not differ strongly from other regions of the South and West of Spain, Portugal and Greece in terms of income levels. This is basically the result of a series of negative conditions which have affected peripheral areas in Europe for a long time. In the period immediately after the second world war, economic conditions were similar everywhere in the periphery of Europe. Bad accessibility to lagging regions -frequently located in the periphery- was accentuated by the existence of an inadequate infrastructural network. Capital accumulation was almost non existent and, therefore, endogenous investment extremely rare. And most of the lagging regions lacked the raw materials and

energy sources around which the great Fordist industrial complexes were generated. The Mezzogiorno was by no means an exception.

Moreover, the socio-economic structure in the Mezzogiorno was also almost identical to that of lagging regions in Spain, Portugal, Ireland or Greece. In the early post-war stages the great majority of the active population was employed in the primary sector, while the rest was mainly concentrated in small wholesale and retail and administrative services. Industrial employment was remarkably weak since most industries were related to craftsmanship and still had a family structure. The Mezzogiorno and other lagging areas in Western Europe remained apart from the development of Fordist industrial complexes.

In this economic and social context, it is not strange to imagine why the Mezzogiorno had remained apart from major economic trends. The market was extremely reduced and isolated: personal income was modest and self-production in rural areas a common practice. Trade with other regions or other countries was very low in comparison with the North of Italy. However, the backwardness of the Italian South cannot only be related to economic and social conditions. The political sphere has also played a significant role both in the genesis of economic backwardness, as well as in the incapability of the correcting policies set in motion to fight it.

IV.3.2.1.2.- Forty years of regional development policy in the Mezzogiorno: the fight against development constraints.

The development of the South has always been one of the main goals in Italy since the reunification. The permanence of strong territorial disequilibria within the country had a negative influence on the Italian economy as a whole, and threatened in several periods the social and political stability of the country.

Since the late 1940s different development policies have been put into operation in

the Mezzogiorno, aiming at setting the bases to reduce the gap between rich and poor regions. This intervention took fundamentally two different forms: ordinary intervention executed by public administrations and, above all, the extraordinary intervention set up in the 1950s under De Gasperi. The extraordinary intervention was performed by a new agency, the *Cassa per il Mezzogiorno*, which had at its disposal large economic resources to accomplish the task of setting the bases for autonomous development⁸. Indicative planning was the strategy used for the Mezzogiorno. Development objectives were designed in ten year plans.

The purpose of the first ten year plans was to set the basic environment to encourage the birth of new industries. An enormous effort in the building of infrastructure was achieved during the fifties and sixties (Cafiero, 1991). The extension of these efforts during the 70s and 80s has led to a significant reduction of the deficit in infrastructure of the Mezzogiorno.

In the 1960s a great percentage of the extraordinary funding was devoted to the establishment of large industrial complexes in Sicily and in other areas in the South. Industries benefited from lofty incentives if they established in Southern Regions and leading public and private groups rushed towards the Mezzogiorno. Nevertheless, according to Giannola, this process was double-faced, because while large industrial consortia were settling in the South, local industrial sectors were unable to cope with competition from small and medium-sized firms located in the North and Centre of Italy (1982, p. 69). This industrial frenzy of the ten year plans was cut short by the economic crisis of 1973, and in the second half of the seventies public intervention began slowly to decline.

The net result of forty years of development policies in the Mezzogiorno have not been significant increases in growth rates. In the last 30 years, GDP has grown in the

⁸ The funds allocated to the *Cassa per il Mezzogiorno* amounted to 0.70% of GDP between 1950 and 1970; rose to 0.90% in the seventies and fell to 0.50% in the eighties (Salvatore Cafiero, 1991, p. 339).

Mezzogiorno at the same rate than in the whole of Italy. That is, growth in the Mezzogiorno has exceeded that of the declining industrial areas of the North East of the country, but has been below that of the Terza Italia. During the 1980s, the Mezzogiorno has even experienced a slight decline of GDP per inhabitant in relative terms.

In sum, huge investments directed towards infrastructure and the attraction of large industrial plants have not set the preconditions for economic growth. Indeed, as Trigilia points out, those areas of the Mezzogiorno which have fared better are precisely those which have been capable of reducing their dependency on public intervention (1992b, p. 8-9). Money transfers to the Mezzogiorno have only fostered a partial integration of the economy of the area into world economic circuits (D'Antonio, 1990, p. 548). On the one hand, the traditional productive structure has been destroyed. Agriculture has undergone an important crisis and industry has never gained a significant share in the economy. The Italian Mezzogiorno -as many other peripheral economies- has indeed made a structural transition from an agricultural to a service economy in a very short period of time, without even reproducing the conventional process which involves an intermediate stage of industrial supremacy (Botazzi, 1990). And, in contrast to what has happened in other areas, the disruption of the agricultural structures has not generated forms of collective mobilization of peasants (Trigilia, 1992b, p. 88). Unemployment rates and employment in the tertiary unskilled sector have soared, as well as illegal activities, which make up for a significant percentage of the total economy.

Running parallel to the disruption of the traditional production fabric without the generation of alternatives, the demand side of the economic sphere has achieved a full integration into world markets. Global consumption has increased in the last decades, representing since 1975 almost 100% of GDP. This high rate of consumption is placed some 20 points higher than in the rest of Italy. In absolute terms consumption levels in the Mezzogiorno attain the Italian average, even though the income per person is still significantly lower. At first sight, it could be thought that high levels of consumption could

have had a harmful effect on investment. However, fixed investment in the Mezzogiorno has been since 1963 higher than the Italian average, by 2 or 3 percentage points. This modest but constant surplus in investment can only be financed by budgetary transfers from the rest of Italy to the Mezzogiorno.

The result of these trends is a very unbalanced economy as in most peripheral areas in the EU. The Southern Italian market has shattered its isolation on only one dimension. As D'Antonio indicates, "insufficient economic growth has rendered the South economically dependent on the rest of the country. Regional output cannot satisfy local consumer and investment demand. In the eighties consumer growth was higher than output and in the last year consumer spending outstripped production" (1991, p. 402). Southern Italians spend as much as other Italians and as other Europeans in consumption. However, an alternative production structure has not yet laid its foundations. Industry in the Mezzogiorno is extremely weak in comparison with other regions in the country and the dimensions of plants are extremely reduced.

These conditions have led to a great dependence on imports from other regions and countries. While Italy has a balance of trade in almost permanent equilibrium, the Mezzogiorno has a deficit in its balance of trade which averages around 20% of the annual GDP. This situation can only be handled through the conversion of the Southern economy into an assisted one, as was the case in recent decades. The welfare of the Mezzogiorno has been to a large extent dependent on transfers from Rome to avoid the collapse of its whole productive system.

The final consequence is, as Dioguardi points out, "an endemic inflation permanently fixed some point higher than that recorded in other areas having similar development and industrialization" (1991, p. 453).

IV.3.2.1.3.- Economic and political benefits of the intervention in the Mezzogiorno.

As we have seen, active government intervention has tried -and often succeeded- to tackle effectively what were considered by traditional development theories the major barriers to growth. However, regional intervention has failed in fulfilling its ultimate aims: to boost economic growth in order to reduce the existing economic gap between the Mezzogiorno and the rest of the country, and to create the favourable conditions for the subsequent expansion of private-sector activities in the South (Dunford, 1988).

What are the reasons behind this failure? What makes institutional intervention in the Mezzogiorno different from experiences in the Terza Italia? Why has it been maintained for so long? and whom has it benefitted?

The reasons behind the failure of institutional intervention in the Mezzogiorno are not simple. The combination of a wide group of circumstances has triggered what Trigilia calls the 'perverse effect' of regional development policies in the Mezzogiorno (1992b). The immutability of regional intervention is one of the possible explanations of the problem. The philosophy behind the extraordinary intervention has not been altered for more than three decades, while economy and society, in general, have undergone significant changes which have radically modified the socio-economic conditions under which regional intervention was conceived. As D'Antonio indicates, the guiding notions of the *Cassa per il Mezzogiorno* did not undergo revision in the last thirty years (1991, p. 414). They were anchored in Myrdalian and Hirschman development postulates and were not adapted to shifting socio-economic conditions.

Nevertheless, the main barrier to growth is provoked, as Trigilia has tried to demonstrate (1988 and 1992b), by the adverse political and institutional context which has for long distinguished conditions in the Mezzogiorno and which has cut short the possibilities of endogenous growth and reduced internal entrepreneurship to its minimal expression

(Gianola, 1982; Trigilia, 1988; Fadda, 1992). Lack of entrepreneurship has also contributed to an imperfect adjustment of Southern industry to the new market conditions, generated by the processes of socio-economic restructuring, and to the progressive orientation of public intervention in the Mezzogiorno towards the support of income and aggregate demand (Cersosimo, 1990, p. 64)

The first evidence of this adverse political and institutional context is the excessive fragmentation of the social and political spectrum. The Mezzogiorno lacks the concentrating poles around which the entrepreneurial activity has been developed in Central and North-Eastern Italy. Trade Unions are weak and even groups encouraged by the local church or municipalities are less developed than in the rest of the country. The result is a lower level of collective identification with the local economy and, hence, a lower level of institutionalization of the economy. The shortage of collective tradition in the Mezzogiorno has thus led to a reinforcement of the role of the family and of parallel political structures (including the Mafia), whose particular interests do not always coincide with collective ones (Trigilia, 1988). In other words, the Mezzogiorno might have experienced a phase of growth of personal income, but at the same time it has been "besieged by formidable social regression" (Dioguardi, 1991, p. 428).

The absence of poles of collective action has led to the formation of a vicious circle. The lack or relatively little importance in social life of collective organizations as in other areas of Italy (chambers of commerce, cooperatives, leagues, rural saving banks, etc) emphasizes the role played by the family and *clientèles* in the social panorama. Social activity is governed by very simple social structures (Trigilia, 1988 and 1992b), facilitating the expansion of corruption and of connection between local politics and organized crime (Caciagli, 1977; Cazzola, 1988; Trigilia, 1992b; Della Porta, 1992).

In addition, the lack of dynamism of local political forces and local administrations has become another barrier for the success of institutional intervention. The presence of two

regions with a special statute since the early 1950s (Sardinia and Sicily) and a political panorama dominated by the Christian Democracy since the restoration of democracy at the end of the second world war could have been, *a priori*, favourable conditions for the development of similar links between politics and the economy to those noticed in the Terza Italia. In fact, from this perspective, the political panorama does not differ greatly from what were the main characters in which Industrial Districts were developed: a strong dominating party and a certain degree of autonomy. The combination of a regional government, with the clustering of population around a given political option and the financial means to carry out an adequate development policy could have contributed to the setting up of the ideal conditions for the promotion of growth. However, in the Mezzogiorno the situation has not evolved in the same way as in the Terza Italia. In contrast it has developed in what can be considered as an Olsonian way. Lack of political change has led to institutional sclerosis and little political dynamism. This is, to a certain extent, a result of the 'clientelistic' organization of the society of the Mezzogiorno, and of the important role played by the family in the economy. Family *clientèles* have been reproduced in the political party system, and the long dominant Christian Democratic party probably represented the paradigmatic example of this reproduction. Although comfortable coalition majorities were the norm in the South, internal fights among party fractions have rendered regional government stability and any intention of developing any coherent programm almost impossible. The average life of regional governments in the Mezzogiorno is lower than in the rest of Italy, and, in the cases of Sicily and Sardinia, in spite of the fairly constant patterns of vote, they average less than a year⁹. Under these conditions of instability, the capacity of regional governments to design and implement their own development policies -as the regional administrations in the Terza Italia have done- is severely limited. Therefore, regional politics and institutions have played a subsidiary role to national institutions in the design and implementation of development plans in the Mezzogiorno. And the policies designed at a national level have not always been the

⁹ 323 days on average, while the second lowest Sardinia averages 350. In contrast, a region with a much more fragmented political setting, like Umbria, holds the Italian record, with 1681 days (CENSIS, 1992, p. 68).

most adequate for the Mezzogiorno. The national industrial policy during the 1980s represents a clear example of this disadjustment (Vinci and Cardone, 1990, p. 49).

The political panorama in the Mezzogiorno has thus been featured by a strange amalgamation between formal stability and internal instability caused by the constant need to look for political consensus both at a regional and, above all, at a national level. Political activity in the region has been handcuffed by internal quarrels among *clientèles* and by the strategic importance of the Mezzogiorno in the national political panorama. Hence, the political agenda of the regional government has been restricted for years to demanding more money from Rome, an activity which has not hampered the growth of some of the largest regional bureaucracies in Italy¹⁰. This subsidiary role has been readily accepted by national government coalitions in Rome for several decades, because coalition parties at a national level were capable of extracting large benefits from this system in term of electoral outcomes. The main parties in office both at the central and local level -the Christian Democracy and the Socialist Party- clearly gained ground during the high-point of the activities of the *Cassa per il Mezzogiorno*. In contrast, the main opposition party -the Communist Party- was always under-represented in the South, with respect to the Centre and North of Italy (Trigilia, 1992b, p. 66).

This situation has led to the creation of perverse effects of public intervention (Trigilia, 1992b, p. 75). Several vicious circles of political activity have been formed. In first place, economic backwardness has been used by politicians in the Mezzogiorno as the main argument to demand greater capital transfers from Rome. However, those transfers, intended to promote economic development, are redirected to maintain unemployment levels at a manageable size and to satisfy clientelistic compromises and electoral agreements (Cersosimo, 1990) by the creation of public employment and the promotion of public works of doubtful social and economic interest. A large amount of these transfers have also ended

¹⁰ I.e. the Sicilian regional government had 10.043 employees in 1989, that is twice the size of the regional administration in Lombardy and four times that of Piedmont.

in the hands of organized crime. According to D'Antonio "policy for the South [...] would seem to be very dependent on a role of the State as a *deus ex machina* providing necessary finance; the policy has paid too much attention to the quantity of financial resources to use and has been rather neglectful about where they were going to or the quality of the results they produced" (1991, p. 415). This vicious circle goes on continuously generating more and more misery, since parties in office extract from it serious advantages in electoral terms, especially in those areas where the dependency on public intervention attains its maximum degree (Trigilia, 1992b, p. 126-127).

Secondly, the expansion of bureaucracy is another factor which limits the capacities of growth. Self employment is perceived as too risky in the Mezzogiorno. A great proportion of the Southern youth longs for what is regarded as a secure salary as civil servants. This is achieved mainly via clientelistic links and thanks to the fact that capital transfers are redirected to this sector. However growth in the administrative sector constrains growth in other more productive activities and reduces the 'offer' of young businessmen and entrepreneurs, since the prospective of a salary for life pushes job-seekers towards public employment, rather than towards private activities (Cersosimo, 1990, p. 73).

And finally, there is the vicious circle of institutional transparency. The perception most Southerners have of their region is rather indefinite. In contrast to what happens in the Centre and in the North of Italy, where the limits of state and regional administration are more clearly delimited, in the Mezzogiorno there is a complex coexistence of local and regional administrations, together with agencies and structures inherited from the system of the *Cassa per il Mezzogiorno*, and a powerful network of peripheral entities of the central administration (Cammelli, 1990, p. 165). In addition, very few people know exactly what are the powers and prerogatives of the region. Nevertheless, the regional government, being paralyzed by institutional sclerosis, has not succeeded in making its role and competences clear, which has ultimately led to a poor consideration of regional institutions (Cammelli, 1990).

In sum, socio-political conditions have led economic growth in the Mezzogiorno to an impasse. Political dependency and lack of real local and regional dynamism have fostered what Trigilia calls a collective *deresponsabilizzazione* of the Southern society with regard to economic activities (1992b, p. 9). Economic intervention has thus contributed to destroy the old and isolated productive structure without solidly setting the bases of a new one. As Nocifora indicates, the Mezzogiorno has passed in the space of a few decades, from being a rural economy, based on large state ownership and protected by its isolationism, to being an economy dependent on external transfers (Nocifora, 1981) without having significantly altered its traditional social and political arrangements. Hence and despite the fact that political intervention has provoked a considerable growth of personal income, its stretch in time has finished by discouraging entrepreneurship, particularly through the unfair competition of either politically protected economic activities or activities controlled by criminal organizations (Trigilia, 1992b, p. 85)

IV.3.2.2.- National politics, development policies and regional growth in lagging Spanish regions.

Traditionally, the interaction between politics and regional growth in Spain has been carried out in a very similar context to that of the Italian Mezzogiorno. Spain is -and has for long been- also a country with strong internal contrasts in terms of income. The industrialized regions of the North East, such as Catalonia and the Basque Country, and the area around Madrid, have concentrated most of the wealth of the country, while the Southern regions of Andalusia, Extremadura, Castile-La Mancha, the Canary Islands, and Galicia in the North West were placed clearly behind in the development scale.

IV.3.2.2.1.- Spanish regional development policy under Franco.

The evidence of the strong internal disparities led the national administration during the 1960s to implement a development policy, whose main aim was to reduce the gap in

GDP between advanced and lagging regions, and to set the bases for the autonomous growth of backward areas. This type of policy was inspired in similar experiences which were taking place in France and, particularly, in Italy. The Italian strategy was, in fact, the guiding line for Spanish development policies. Conditions in both countries were quite similar: the borderline between advanced and backward areas was quite clearly established and the level of devolution of powers to the regions was almost non-existent at that time (with the exception of the five Italian special statute regions). However, there was one significant difference which set apart the Spanish experience from the Italian one. Whereas Italy was a stable democracy, Spain was administered by the Francoist regime.

The implementation of regional development policies under a dictatorship entailed some special characteristics which greatly thwarted the effectiveness of development policies. Not only no intermediate levels of government participated in the process of design, implementation and evaluation of development policies, but also even the regional factor was maintained at a low profile, in order not to awake Spanish regionalism. Francoist development policy thus was focused mainly at a provincial and local level, a factor which implied a serious handicap in the capacity to set in motion a comprehensive development policy (Cuadrado Roura, 1987, p. 34). In addition, development policy was always subsidiary to general economic policy. Concrete intervention in lagging regions did not differ greatly from the industrial policy which was developed elsewhere in Spain. As Suarez-Villa and Cuadrado Roura (1993) underline, the same types of industry and the same industrial sectors received institutional support both in advanced and lagging areas, a factor which ultimately led to the creation of large industrial complexes with few connections to the local industrial fabric in lagging regions (Cuadrado Roura, 1987).

The concentration of public intervention on the local, rather than on the regional realm, led to the implementation of a territorial industrial policy based on development plans and development poles. In the first Development Plan (1964-1967) seven development poles were defined in lagging areas. These development poles were divided into two categories:

the promotion poles, located basically in cities with a reduced industrial structure, but with what was considered as an adequate endowment of human and natural resources for the development of industry; and the industrial development poles, placed in cities with an already developed industrial fabric (Cuadrado Roura, 1987, p. 36-37).

The second Development Plan (1968-1971) was conceived along similar lines. Although some efforts were made in order to approach the question of regional development and growth in a wider territorial context, the practical implementation of the plans did not differ greatly from the previous one. The establishment of large production complexes in development poles was once again the chosen strategy.

The third Plan (1972-1975) introduced greater changes. The objective was to implement territorially integrated actions, instead of focusing on development poles. Development poles gave way to 'large areas'. This strategy was conceived to achieve the first results in the medium and long term. Franco's death and the advent of democracy cut short the development strategy conceived in the three development plans.

Was the development policy set in motion in Spain in the 1960s and early 1970s efficient? Did it succeed in achieving its goals of reducing the development gap among Spanish regions, and in setting the bases for autonomous growth in lagging areas? Although the Development Plans represented a significant progress with respect to the previous and somewhat erratic attempts to correct spatial inequalities, the results can be considered as modest (Cuadrado Roura, 1987; Suarez-Villa and Cuadrado Roura, 1993). Some of the development poles were quite successful in attracting industries and investment and in developing around these new centres a network of industries. However, in most cases incentives and subsidies in development poles were only capable of attracting -as happened in numerous areas of the Italian Mezzogiorno- what Lipietz called *cathedrals in the desert* (Lipietz, 1980), that is large industrial complexes with almost no connection with the surrounding environment. Moreover, the excessive concentration of industries in certain poles

generated congestion, pollution and other urban problems, whereas, due to the territorially reduced dimension of the poles and the lack of adequate outlets, neighbouring areas remained anchored in a traditional rural economy. The rest of the region thus hardly benefited from the dynamism of certain poles, whose problems became, to a certain extent, more related to those of the national industry than to those of the regional economy. Hence, interregional contrasts were not only not resolved, but new intra-regional disparities were engendered within lagging regions (Cuadrado Roura, 1987).

In sum, regional policy was completely incapable of countering the tendency to an increasing concentration of wealth in the economically most dynamic regions. During the era of the implementation of the Development Plans the highest growth was achieved in the tourist resorts of the Balearic and the Canary Islands, and in Madrid and Catalonia. Bar the Canary Islands, these regions were already among the wealthiest Spanish territories. This evidence led to an increasing questioning of economic planning and of the regional development plans designed by the central administration (Cuadrado Roura, 1987; Suarez-Villa and Cuadrado Roura, 1993).

IV.3.2.2.2.- Regionalization and regional policy in lagging regions.

The scarce results of the development plans, and the rapid process of devolution of power to the regions which was launched with the return to democracy, provoked a shift in the structure of Spanish development policies. Despite the fact that national development strategies lingered on, the main protagonism in regional development policies was passed onto the regions. Spanish regions had access to various degrees of self government in the second half of the 1970s and first half of the 1980s. This rapid process was, as Pérez Díaz points out (1990, p. 21), influenced by Francoist repression of national identities: the suppression of all territorial autonomy led to the reinforcement of Catalan and Basque nationalist sentiment. As a consequence, the will to achieve political freedom and to establish democracy became associated with a strong determination to accomplish a devolution of

autonomous powers to regions with a strong national or regional identity.

The Spanish decentralization model is not unique and homogenous across regions. As mentioned, there are several constitutional ways of accessing regional autonomy, which also imply different levels of self-government. The development of a greater or lesser degree of self-government has depended mainly on the interpretation of the strength of local identity. The three historical nations (Catalonia, the Basque Country and Galicia) achieved a speedy access to a full autonomous status. Similarly, regions with 'fueros'¹¹ -the Charter regions of the Basque Country and Navarre- were included among those to gain full devolution. Other regions could also access regional autonomy in a quicker and more complete way. Andalusia led the way in the fight to attain the same rights granted to historical regions (Pérez Díaz, 1990, p. 30-31). Valencia and the Canary Islands followed later. A final regional typology of the devolution process is summarized in Table IV.1.

Different levels of autonomy across Spanish regions imply also diverse financial and budgetary capacities. As has often been mentioned (Castells, 1987), some Spanish regions have acquired a financial capacity that is paralleled only by that of meso-governments in federal states. However, other regions lag behind in their capacity to finance, and thus to design their own development policies at a regional level. This implies that regions which have had the dynamism and budgetary capacity to set up their own development schemes and development agencies have contributed more to foster economic activity and economic growth. Recent evidence shows that the regionalization process has injected a certain dynamism into the economic arena, especially evident in those regions with greater capacities to implement their own policies, and which is reflected in slightly higher growth rates -when other factors are controlled for- of regions with greater political autonomy during the 1980s, than during the 1960s (Rodríguez-Pose, 1996). From this perspective, it could be said, as

¹¹ The 'fueros' are economic charters which were granted to some Spanish Kingdoms in the Middle-Ages and respected henceforth by the Spanish state after unification. Most regional *fueros* were suppressed in the early 17th century by Philip V, the first Bourbon king. Nevertheless, Navarra and the Basque Country managed to keep their own privileges until this century.

Table IV.1

REGIONAL TYPOLOGY RESULTING FROM THE DEVOLUTION PROCESS

Type of region	Level of political and financial autonomy	Regions
Charter	Very high	Navarre and the Basque Country
Access to autonomy via Art. 151	High or very high	Andalusia, Canary Islands, Catalonia, Galicia, Valencia
Access to autonomy via Art. 143	Low	Aragón, Asturias, Balearic Islands, Cantabria, Castile-La Mancha, Castile-León, Extremadura, Madrid, Murcia, Rioja

Vázquez Barquero stresses, that "the creation of the regional state and the transfer of competences to the autonomous communities permit them [at least in the early stages of devolution] to overcome restrictions that impeded the political and administrative dimension from working within the local endogenous development processes" (1986, p. 16). As a result regions seem to have set the basis for a more efficient use of local resources which, in several cases, has been translated into better economic performances.

Unfortunately, regions with a greater capacity to foster their own development schemes have not always been the regions which needed them most. The most successful development schemes have been carried out in two of the most advanced regions, which perhaps least needed them. Development schemes set up by regional governments in the

Basque Country and in Catalonia have been greatly inspired by similar structures in the regions of the Terza Italia. Regional institutions and newly created regional agencies have worked together with chambers of commerce, associations of entrepreneurs and trade unions in order to promote the creation of networks of SMEs and to link these networks to the existing industries, in a manner which in some areas (i.e.: Mondragón in the Basque Country) greatly resembles the experience of industrial districts. In contrast, governments in lagging regions with the constitutional and financial prerogatives to fulfil their own development schemes have been less proficient than the Catalan and Basque governments. Regional administrations in Andalusia and Galicia remained anchored in traditional demands to obtain greater investment from the central government, disregarding the industrial and development policies set in motion by their Basque and Catalan counterparts. Only in the beginning of the 1990s new and promising paths inspired in endogenous development strategies have been started in these two regions.

Administrations in other lagging regions like Castile-La Mancha, Castile-León, Extremadura, and Murcia were incapable of setting up their own development strategies since very often they lacked the competences and the necessary budget to pursue autonomous policies in these fields.

In short, a long tradition of active intervention in lagging Spanish regions has achieved sparse results. Backward regions are as affected by lack of dynamism as they were several decades ago. The causes of this relative failure of regional intervention can be divided into two groups. During Francoist times, the design of development policies at a national level, which did not always reflect and respond to specific regional problems lead to a detachment of local economic and social forces from the development process, and, as in the case of the Italian Mezzogiorno, to the formation of a mentality of assisted economy. Moreover, the emphasis of growth poles, instead of in more comprehensive and territorially integrated policies, contributed to the development of new intra-regional disparities within lagging regions. The advent of democracy and the regionalization process has solved the

problem of central planning, but lagging regions have been less competent than advanced ones in grasping the advantages of the new system. Some of them because their regional governments and institutions showed little dynamism during the early stages of the devolution process. Others, because they lacked the sufficient competences and budget to develop their economic and industrial policies.

*
* * *

In contrast to what was observed in the 'new growth spaces', political and institutional intervention in certain lagging regions in Western Europe has had either no effect on economic outcomes, or even has led to the creation of perverse effects and vicious cycles which, in the long-run, have tended to discourage economic activity. Lack of regional autonomy in the early stages of economic intervention can be considered as one of the causes for the creation of assisted economies in the Italian Mezzogiorno and regions in the South and West of Spain. Imposing transfers of funds and the location of industrial complexes with few connections to the local economy, and the failure to foster local entrepreneurship led to the progressive transformation of what was conceived as a development and industrial policy into a policy of income support. Even in those regions such as Sicily or Sardinia, which enjoyed a certain level of autonomy, similar processes were reproduced; what can be called collective *deresponsabilizzazione* of regional institutions has become the norm.

Regionalization processes in Italy and Spain did not imply a substantial change. The mentality of assisted economy had already set its roots, and often national political contexts contributed to the maintenance of policies whose impact on local economic performance was much lower than expected.

IV.4- REGIONAL POLITICS AND GROWTH AT THE EUROPEAN LEVEL.

As we have seen, recent literature has extensively dealt with the relationship between politics and economic performance, either to highlight that politics and political issues have contributed to generate higher growth, or to underscore that, in certain cases, political conditions have had a detrimental effect on growth trends.

Several factors stand out in the review of the literature as the variables and conditions which seem to have contributed the most to fostering the relationship between politics and economic performance. First, the presence of encompassing trade unions has been generally considered as a favourable element. Both the corporatist economies of Scandinavia, or the industrial districts of Emilia-Romagna have been able to progress under -or even better, because of- conditions of large trade union membership and under the presence of encompassing and well-organized labour organizations. Trade unions have actively contributed to the pursuit of collective gain strategies by actively participating with governments and employer associations in policy making.

Secondly, the orientation of parties in office -and, especially in relationship to the characteristics of the labour movement- are regarded as another factor bolstering the connection between political conditions and economic performance. Left-wing governments in combination with an encompassing labour organization, as well as right-wing policies in a setting of weak trade unions, are considered by some authors to have positive effects on the economy.

Public expenditure and taxation are other factors which have captured the attention of researchers. Taxation is related to the capacity of governments to set up wealth redistribution strategies, which are broadly considered -despite some exceptions- to have a beneficial effect on economic progress. Public expenditure reflects the capacity of

governments to set up their own economic policies, which, despite conflicting arguments on the topic, are considered by large sections of the literature on corporatism and socio-economic restructuring as valuable tools to promote economic activity.

Moreover, the capacity of governments to articulate and structure networks of collective interest and to provide the necessary and basic collective goods, the congenial organizational ecology, the redundant capacities and the adequate institutional exoskeleton to pursue economic activity, is increasingly judged as a key element in the positive or negative association between politics and economic performance. Governments which have the power and the ability to articulate these networks and to provide the institutional exoskeleton play a non negligible role in fostering economic activity. In contrast, governments and institutions lacking the capacity and the ability to provide such a setting are regarded as hindrances in order to promote growth.

According to the literature, the power and ability of governments to structure these networks seems to be closely related, not only to their administrative and budgetary competences, but also to the existence of constant patterns of vote. A large identification of the population with a given political party seems to confer parties in office and governments the legitimacy to act as promoters of local, regional or national level alliances of governments and institutions, employer associations, labour groups and political parties which are at the base of the proclaimed connection between political conditions and the economy. Strong governments or governmental coalitions have thus a greater power to design and implement their own development strategies and to act as patrons of local networks consisting of economic, social and political agents.

In sum, the capacity of politics and governments to influence economic outputs, and thus to impinge on economic performance, is greatly determined by the level of autonomy. Both constitutional autonomy in order to tackle relevant issues in relationship with economic activity; and financial autonomy in order to be able to redistribute wealth and to implement

autonomous economic, industrial and development strategies and policies, which in spite of the increasing globalization of the economy, are still viewed as important differentiating elements in the genesis of economic activity.

Nevertheless, the relevant factors which determine the association between politics and economic performance have been extracted either from national approaches to the topic (corporatism), or on a case study bases (literature on socio-economic restructuring). And national and case study approaches to the topic have been, in my opinion, extremely restricted. The corporatist literature has been centred around the advanced capitalist economies, and much of its theoretical corpus is derived from the analysis of the Scandinavian institutionally rich economies. The geographical setting on which literature on socio-economic restructuring has concentrated, has also been amazingly reduced. Together with the examples of the Terza Italia, Baden-Württemberg, and the industrial districts of Western Jutland and Southern Norway, reviewed in the previous pages, few other spaces have captivated the attention of researchers. The region of Rhône-Alpes, the London-Reading-Bristol corridor, and the scientific and technological poles complete the relationship of the areas in Europe where research on the 'new growth spaces' has been carried out. These are what can be considered as the most favourable cases to test the territorial effects of recent changes. In contrast, other areas have attracted little attention. Insufficient research has been performed in intermediate regions, and although there is an increasing interest on industrial declining areas, this interest has by no means reached the level of enthusiasm raised by the 'new growth' areas. Literature on the problems of some peripheral regions, like the Italian Mezzogiorno antedates and has little in common with that on the process of socio-economic restructuring.

The units of analysis and methods used when tackling the association between politics and economic performances raises interesting questions about the possibility to apply the findings of the literature on corporatism at a regional, instead of at a national level. Similar questions are raised about the capacity to build, on the basis of a few case studies, a global

theory on the relationship between politics and economic performance in a post-Fordist environment. Is the association between politics and the economy which has been detected at a national level by the analysts of corporatism applicable at a regional level? Does the close relationship between political conditions and economic outcomes in the 'new growth spaces' hold for a larger territorial setting? Can it be maintained when cross-sectional, instead of case study analysis, is performed?

There have been very few attempts to address the question of the relationship between political conditions and economic outcomes in a large regional setting. Perhaps the most significant one has been Putnam's attempt to measure the performance of Italian regional institutions, and how this performance impinges on growth. In his recent book (1993), Putnam proposes an ingenious method of evaluating institutional performance. He determines a set of twelve indicators for Italian regions which try to capture aspects such as the stability of regional governments, the efficiency in presenting regional budgets, the capacity to generate legislative reforms, the accuracy and reliability of the regional statistical services, the instruments of industrial policy, etc. (pp. 73-85). After conducting the analysis, he finds that some regions perform significantly better than others from an institutional point of view (1993, p. 95). The performance of institutions is closely associated to civic traditions (defined by the interest of the population in public life and in community problems) present in certain areas of Italy. And despite a few exceptions¹², he considers local civic traditions or the degree of 'civic-ness' as capable of predicting economic outcomes (1993, p. 182). According to Putnam, the degree of 'civic-ness' has a strong impact on the economy and not vice versa (1993, pp. 182-183).

However, are Putnam's conclusions applicable to other regional contexts outside Italy? Are factors such as encompassing trade unions, institutional sclerosis, the orientation of

¹² Campania, he argues, is better off from an economic point of view than Molise or Basilicata, but the regional institutions of the former perform worse than that of the latter. Similarly, regional administrations in Liguria, Lombardy, and Piedmont are less efficient than those of Emilia-Romagna or Umbria, despite enjoying higher levels of GDP per capita (Putnam, 1993, p. 101).

parties in office, public expenditure and taxation, constant patterns of vote and so on, still associated to economic performance when they are taken out of the territorial settings where they have been studied?

The following sections will try -in light of the factors underlined by the literature on the topic- to address the question of the relationship between regional political conditions and growth in Western Europe, using cross-sectional analysis techniques. First I will try to operationalize the concepts used by the literature and to transform them into variables, before performing regression analysis with the variables in order to determine the degree of association between individual political indicators and growth. Later, I will execute a cluster analysis with the resulting political variables with the aim -as was already done in the previous chapter- of calculating whether there is a significant association between the resulting regional clusters and the groups of regions according to their growth rates established in Chapter II.

IV.4.1.- OPERATIONALIZING POLITICAL CONCEPTS.

One of the main problems that researchers working on cross-sectional analyses must face when trying to test hypotheses is how to transform concepts and theories into variables. This problem is magnified when tackling the association between political conditions and economic outcomes at a regional level. How can we measure factors such as the presence of encompassing trade unions, the capacity of regional governments to articulate and structure networks of collective interest, and local and regional level alliances? How do we operationalize complex concepts such as autonomy or the capacity to set the adequate institutional exoskeleton in order to promote growth?

As was already mentioned, postulates on the association between political conditions and growth have been developed either with nations as the unit of analysis, or on a case study basis. In this way researches have been able to dodge the problems of lack of data at

a regional level, and have been capable of developing rich and complex theories about the interaction between social, economic and political conditions which become difficult to disentangle into separate variables.

Lack of regional political data is perhaps the most serious handicap when trying to operationalize theory into variables. Contrary to what happens with economic and social data, there is not a single data set at a European level which includes regional political data. The European Union's REGIO database can be regarded as limited and lacks basic information from a social perspective, but at least it includes a series of variables which have been standardized and are thus perfectly comparable. In the political field there is no similar database. This limits the possibility of conducting most types of cross-sectional analysis. Moreover, since the regionalization process is still quite new in most European countries it is impossible to trace back most of the variables for more than five or six years. As a consequence, all the indicators which will be used in this analysis have been compiled by resorting to national yearbooks and newspapers.

In addition, and considering the different levels of devolution of power to the regions in Western Europe, only complete sets of regional data could be gathered for those countries whose regions enjoyed a certain degree of autonomy. Therefore, no data at a regional level has been used for Denmark, Greece, Ireland, Luxembourg, the Netherlands, and Portugal, whereas in the case of the United Kingdom the indicators reflecting electoral support represent the results of national elections divided on a regional basis.

Even more important than the actual lack of political data is the existing gap between the political variables available at a regional level and the theories that support the existence of a certain association between local institutional and political conditions and economic growth. These theories -as was already mentioned- consider that the link between politics and institutions, on the one hand, and growth, on the other, is achieved via a complex system of networks in which political parties, trade unions, associations of firms and other social and

political actors interact. Regional institutions and intermediate levels of government play a fundamental role in fostering the formation of these networks. This complex relationship between politics, institutions, and growth, developed on a case study basis, is almost impossible to test on a cross-sectional basis, and especially with the available political data. Available variables can only give us a very feeble hint of the power parties in regional office may have in order to try to develop similar networks to the ones described in the case of industrial districts or other similar industrial formations. However, they do not say anything about local government activism or about how meso levels of government across Western Europe are using the strong or weak power they have in order to contribute to the formation of networks and to try to promote growth.

These handicaps seriously condition the analysis. Significant factors such as the presence of encompassing trade unions cannot be introduced in this type of analysis simply because of lack of reliable regional data. Other factors such as institutional sclerosis, and local and regional level alliances are hard to define on a quantitative measure, and even when this is achieved, there is no data available. In addition, other political indicators do not reflect the complexity of the arguments developed on a theoretical basis. The absence of data on institutions and institutional networks precludes any serious attempt to empirically test the main theories that relate political and institutional factors to regional growth. Therefore my intention in this section is -using a Popperian approach- to try to determine whether there is a certain statistical association between several political factors relevant for these theories and regional growth on a cross-sectional basis, and not to question the existing theoretical corpus as a whole. As a result, the final political database used in this analysis includes thirteen variables for the regions delimited in Chapter II, which in some way try to reflect the political factors considered by the literature to have a greater relationship with economic growth in regions in the beginning of the 1990s (Table IV.2).

The lack of data on trade unionism at a regional level, leads us to consider other ways to measure the presence of support for what can be considered as encompassing organizations

Table IV.2

VARIABLES INCLUDED IN THE POLITICAL DATABASE

Variable	Definition
ELECSUPP	Electoral support for main regional party in the last regional elections (in %)
DIFBEPAR	Difference between first and second party in the last regional elections (in %)
ELECEVOL	Electoral evolution of the main regional party (in %) between the last and the previous election
PERSEATS	Percentage of seats held in regional parliament by the main regional party (in %)
POLORMAI	Political orientation of the main regional party (alphanumeric variable with seven entries)
POLOROFF	Political orientation of the parties in office (alphanumeric variable with seven entries)
POLORPRE	Political orientation of the president of the regional government (alphanumeric variable with seven entries)
TYPREGGO	Type of regional government (alphanumeric variable with five entries)
POLILINK	Link between regional and national government (alphanumeric variable with three entries)
VOTEGOVE	Does the most voted for party govern? (yes/no)
REGIBUDG	Regional budget (in Ecus per capita)
REGTURNO	Difference between turnout in regional elections and turnout in national elections (in %)
AUTONOMY	Trichotomous variable reflecting the capacity of regional administrations to set up their own autonomous policies and to levy taxes (high/medium/low)

Note: Data included in all variables reflect the political panorama in January 1994 in Belgium, France, Germany, Italy, and Spain. Regional data for the United Kingdom corresponds to the last national elections.

The variables POLORMAI and POLORPRE include the following alphanumeric entries: Communist party, Socialist party, Social Democratic party, Regional party, Centre and Liberal parties, Christian Democratic parties, and Conservative parties.

The variable POLOROFF includes the following alphanumeric entries: left, centre left, "great coalitions", centre, regional, centre right, and right.

The variable TYPREGGO includes the following alphanumeric entries: one party governments, single party minority governments, coalition governments, coalition with regional parties, and great coalition governments.

The variable POLILINK includes the following entries: same party in office, coalition parties, and opposition.

Alphanumeric data in independent variables have been transformed into numeric data in order to perform correlations.

at a regional level. Electoral support for the main party (ELECSUPP) and the difference between the first and second party (DIFBEPAR) are a way to measure the power and legitimacy political parties might have in order to intervene in the decision making process.

Other theoretical factors such as constant patters of vote are partially reflected in the electoral evolution of the main regional parties (ELECEVOL). The political orientation of governments is represented in three different variables: the political orientation of the main political party (POLORMAI), of the parties in office (POLOROFF), and of the head of regional executives (POLORPRE).

The capacity of regional governments to design and implement their own autonomous policies is covered by political and budgetary variables. The percentage of seats held in regional parliaments (PERSEATS), the type of regional government (TYPREGGO), the link between the regional and national executive (POLILINK), and whether the most voted party governs try to reflect the political dimension of policy making. The measure of regional budgets per capita (REGIBUDG) tries to capture the financial capacity.

The degree of civic involvement in regional politics and the importance regional politics has for the community is at least partially represented in the difference between turnouts in regional elections and turnouts in national ones (REGTURNO).

And finally, the presence or lack, and the degree of autonomy is summarized in the trichotomous variable AUTONOMY.

As in the case of social variables, the political indicators of the database were standardized in order to get rid of the national effect¹³.

¹³ Cf. section III.1.2.3. for additional information on the procedure of how to standardize the data set nationally.

IV.2.- REGRESSION ANALYSIS.

The analysis of the political panorama at a regional level in Western Europe is indicative of a complex political landscape. As in the case of social conditions, national differences are highly noticeable and few common transnational features can be highlighted. National contrasts in regional voting patterns, electoral systems, electoral turnouts, transfers of competences and actual budgetary power of regions, contribute to confirm this extremely heterogenous structure which defines the political 'Europe of the Regions'.

Individually taken, none of the variables included in the analysis show a significant positive or negative correlation with regional growth (Table IV.3). In fact, the correlation coefficients of the political variables with growth tend to be even less significant than those observed for social variables (see Table III.2). This implies that there is no statistically significant association between the existence of a right wing or left wing regional government and economic growth; that the type of regional government is irrelevant to growth; and that political tensions or consensus between national and regional governments or the existence of a strong regional identification with a certain party does not seem to affect growth possibilities in any given region.

There is only an extremely slight positive association between an upward evolution in electoral results of the main political party at a regional level and economic growth. This correlation confirms the theory that voters tend to support the ruling party in times of economic prosperity.

Almost the same conclusions can be extracted when using regression analysis of individual variables. In these regressions the variables included in the dataset are considered as independent variables, while regional economic growth is the dependent variable. The analysis (Statistical Appendix) shows that there is no statistically significant association

Table IV.3

**CORRELATION COEFFICIENT BETWEEN THE INDEPENDENT
POLITICAL VARIABLES AND ECONOMIC GROWTH**

Independent Variable	Correlation coefficient with growth
ELECSUPP	0.17
DIFBEPAR	0.16
ELECEVOL	0.24
PERSEATS	0.13
POLORMAI	0.06
POLOROFF	0.11
POLORPRE	0.06
TYPREGGO	0.01
POLILINK	0.02
VOTEGOVE	0.13
REGIBUDG	0.10
REGTURNO	-0.18
AUTONOMY	0.14

between economic performance and all the variables reflecting the potentiality or likelihood of regional political parties to act as encompassing organizations. R^2 rarely exceed levels of 2 or 3%, and t -statistics and p -levels do not reach the thresholds of what is considered as statistically significant¹⁴. No significant results can be extracted from the residual analysis. It could be envisaged that if variables representing the support for regional parties were not associated with regional growth rates, that at least the cases which have been pinpointed by the literature as the areas in which there seems to be a closer association between political conditions and economic outcomes, would appear as outliers in the analysis. However, neither Baden-Württemberg, nor the regions in the Terza Italia are significant outliers. In

¹⁴ E.g. t -statistics for ELECSUPP are 1.428, and 1.313 for DIFBEPAR (*cf.* Statistical Appendix).

fact, they are included among the regional cases in which observed values tend to match predicted values (see Statistical Appendix). On the contrary, regions which have not been specially focused by the literature on post-Fordism are among the most significant outliers: the Canary Islands, Lorraine, Corsica, Picardy, Hesse, Asturias and Galicia.

Similarly, there is no statistically significant correlation between variables indicating the political orientation of regional governments and economic performance. The level of statistical significance of variables such as the political orientation of the main regional party, or the parties in office or of the head of the regional cabinet are fully unrelated with growth. *t*-statistics and *p*-levels are even below the levels of significance observed for variables representing the electoral support of political parties. High growth and low growth occur under left- and right-wing governments. And the residual analysis demonstrates that the orientation of parties in office is not associated at all with economic growth. The maximum variation of predicted growth rates in the case of the political orientation of the main regional party is of only two percentage points, whereas the observed variation reaches almost 40 points (Statistical Appendix). Once again the main outliers are regions such as the Canary Islands, Corsica, Picardy, Lorraine or Hesse, which have been the focus of little attention.

No significant results are achieved either when the variables reflecting the capacity of regional governments to design and implement their own autonomous policies are taken into account. The type of regional government, the parliamentary power of parties, the link between national and regional governments and the regional budget are fully unconnected to growth. R^2 values, as well as *t*-statistics and *p*-levels in these regressions clearly indicate the lack of association between these regional political conditions and growth. Once again, the main outliers are to be found in the regions already mentioned in the previous categories.

The analysis of electoral turnout in regional elections with respect to national ones, as measure of civic involvement in regional issues, also gives no significant results. Although *t*-statistics are slightly higher than in previous cases, they are still not statistically significant.

Once again the observed variation in regional growth rates is much greater than the predicted one, and none of the 'new growth spaces' comes out of the analysis as a significant outlier.

The only exception is the measure of the electoral evolution of regional parties. There is a slightly significant positive association between growth of electoral support for the main regional party and economic growth. This evidence seems to support the hypothesis that parties in office at the regional level tend to improve their performance in times of economic expansion.

IV.3.- CLUSTER ANALYSIS.

In sum, individual political factors at a regional level seem to be unrelated with economic phenomena and growth. A fact that could lead us to conclude that there is no statistically significant connection between political conditions and economic growth at a regional cross-sectional level. However, if instead of taking the political indicators individually and comparing them with growth, we performed a multivariate cluster analysis, could we extract regional political clusters which -in the same way as social clusters did- would to a great extent reproduce groups of regions with similar levels of economic growth? Are there certain sets of political indicators which are associated to positive or negative behaviours in terms of regional growth? Does politics at a regional level -in the countries where regional representatives are elected by universal suffrage- affect economic growth or vice versa, or, conversely, is there no clear cut relation between politics and growth in the regional arena?

The hypothesis behind this test is the same one which underlies the whole thesis: the process of socio-economic restructuring and the diminishing influence of capital and technology in the location of economic activity, may have rendered the relationship between regional and local political conditions and growth more visible. Therefore -as in the case of social conditions- if growth patterns are now more closely related to political circumstances,

clusters stemming from the political analysis will tend to reproduce the regional typology established in chapter II. If, in contrast, there is no significant relationship between regional politics and growth levels, political clusters and the pre-established regional typology will be fully unrelated. It is supposed that factors such as patterns of regional voting, the type and orientation of regional governments, the relationship between regional and national governments, as well as the budgetary capacity of regional administrations to set up their own economic, industrial, and development strategies may lead to the implementation of different types of policies. And if the relationship between policies and growth has become more visible, the implementation of different economic policies, or simply the capacity to carry out active policies at the regional level, might be associated with diverse economic outcomes.

The steps followed in the analysis are the same as in the previous chapter:

- a) Data is standardized nationally, in order to get rid of the national effect.
- b) K-means clustering techniques are used in order to establish 6 different regional clusters.
- c) Resulting clusters are compared with the 6 sets of regions established *a priori* according to their levels of growth and the existence of similar economic characteristics, in order to determine whether there is a certain association between political and growth clusters¹⁵.

The results of the cluster analysis, nevertheless, do not reveal any significant association between the conditions and changes in regional politics and regional growth. In contrast to social clusters, clusters stemming from this multivariate analysis of regional politics embrace very heterogenous groups of regions with few or no common features in terms of economic attributes and growth levels during the past decades. In the same cluster, we find regions with extreme levels of growth like Bavaria (109) on the one hand, and

¹⁵ For an explanation in greater detail of the method, please refer to section II.1.1. in Chapter III.

Asturias (85.25), Rioja (87.44), or Nord-Pas de Calais (87.80), on the other (Cluster 4). Similar contrasts are observed in all other political clusters. In some clusters (mainly cluster 1) very dynamic capital regions share similar political conditions at the regional level as regions affected by industrial decline or peripheral less dynamic regions. In other cases, intermediate dynamic regions are included in the same cluster as peripheral less dynamic or financial centres. No single set of economically defined regions predominates in any of the resulting political clusters.

Table IV.4

**MEAN ANNUAL GROWTH RATES OF REGIONS
INCLUDED IN THE POLITICAL CLUSTERS**

Cluster	Mean annual growth rate of the members of the cluster (EUR12=100)
Cluster 1	96.77
Cluster 2	98.97
Cluster 3	98.02
Cluster 4	100.16
Cluster 5	99.67
Cluster 6	101.49

The lack of association between the regional political environment and regional growth is clearly illustrated when the average rate of growth of the members of each cluster is calculated. The average rate of growth is close to 100 in all of the clusters but number 1 (Table IV.4), whereas in the social clusters of the previous chapter, well defined differences in terms of economic growth during the 1980s and early 1990s were observed (*cf.* Table III.6).

If we descend from the European to the national level, a similar lack of association between the political indicators included in the analysis and growth is observed. In the case of Italy, for example, regions in the Mezzogiorno such as Campania, Abruzzi, Molise and Basilicata share similar political indicators as the Veneto, and yet economic performance during the 1980s and early 1990s tends to be quite different, especially between Veneto and Basilicata. These regions shared in common the presence of a strong majority party (the DC), whose electoral scores relegated political opposition to a distant background. Turnovers at regional elections tended to be below average and, despite massive electoral support for the DC, the Italian electoral system and traditions of coalition making, resulted in coalition governments everywhere within this group, bar Molise. And yet, this seemingly similar political structure does not say anything about other factors such as the dynamism of regional governments, the internal stability within the main party or the capacity of the party to articulate networks involving economic, social and political actors at a regional levels. Other groups of regions sharing similar political conditions at a regional level is that made up of the regions of Emilia-Romagna, Tuscany, Umbria, and Lombardy, and the one including Piedmont, Liguria, Trentino-Alto Adige, Marche and Lazio. However, regions in these clusters perform very differently in economic terms. Poor economic scores in the regions of the Terza Italia during the 1980s and early 1990s contrast with average growth in Lombardy; and the high levels of economic performance of Lazio and Trentino-Alto Adige differ from average growth in the North-East.

In a similar way, Spanish regions with comparable political panoramas, clearly differ in their growth rates. The regions of Galicia, Castile and León, the Balearic Islands, and, with certain nuances Catalonia, have been characterized in recent years for stable right-wing majorities, which have been capable of improving their electoral scores, below average regional electoral turnovers and an increasing capacity to set up their own autonomous policies (although the level of regional autonomy is much higher in Catalonia and Galicia than in the other two regions). And yet, economic outcomes differ clearly. Growth has soared in the Balearic Islands and Catalonia, whereas Castile and León, and Galicia are

amongst the Spanish regions experiencing the lowest economic expansion.

Analogous contrasts in groups of regions sharing fairly common political contexts at a national level and yet experiencing very different growth levels can be highlighted in the cases of France and Germany.

IV.4.4.- THE REASONS FOR THE LACK OF CONNECTION BETWEEN POLITICAL CONDITIONS AT THE REGIONAL LEVEL AND ECONOMIC GROWTH.

What are the reasons for this lack of association between political conditions at the regional level and regional economic growth in Western Europe? Several factors could be highlighted as the basic causes of the absence of connection between political circumstances at the European regional level and growth.

First of all, politics at a regional level means different things in different European nations. Dissimilar levels of transfers of powers to regions condition the influence regional politics, in particular, and all regional events, in general, may have in the overall evolution of the economy. As it was mentioned in Chapter II when analyzing the choice of the unit of analysis, there is not a unique and homogenous system of regional state in Western Europe. From the well developed federalism of Austria, Germany, and Belgium, to the centralism of Greece, Denmark, or the Netherlands, a wide range of regional regimes has been established in European nations.

Contrasts are not only evident across nations. Within states (as in the cases of Italy, Portugal and Spain) regions enjoy different levels of autonomy. For example, in the Spanish case, the Spanish Constitution did not provide for a single way to access autonomy. In fact, it contained different procedures for accomplishing devolution to the regions, which *de facto* led to the establishment of different degrees of regional autonomy, as a recognition of

"variations in the vigour of nationalistic feeling or the sense of singularity in different parts of the country" (Cuchillo, 1993, p. 214). 'Historical' regions (Catalonia, the Basque Country, and Galicia) had leeway to reach *quasi* federal autonomous powers in a short period of time, according to article 151 of the Constitution, while in other regions devolution could only be accomplished slowly and with difficulty following the procedures of article 143¹⁶. In Italy, two different systems of regional autonomy are to be found: that of the special statute regions (Friuli-Venezia Giulia, Sardinia, Sicily, Trentino-Alto Adige, and Valle d'Aosta) and the 15 'ordinary' regions, which enjoy an inferior degree of self-government. In Portugal, the level of autonomy of the Azores and Madeira clearly exceeds that of the regions on the Continent.

Different systems of regional states also imply diverse capacities to design and implement their own regional policies. Regions in Austria, Belgium, and Germany have a considerable degree of self-rule in key sectors for economic growth like planning, industrial and social policy or education, together with strong transfers of powers in other fields which might have a less direct impact on growth. Spanish regions come immediately after, but -as was mentioned before- internal contrasts in terms of transfer of competences between 'historical' and 'non-historical' regions are substantial. Italy is the other regional state in Europe, but the capacity of regions to execute their own autonomous policies is -with the exception of the five special statute regions- inferior to that of most Spanish regions.

Among the European states which are in a process of being regionalized France and

¹⁶ Article 143.2 of the Spanish Constitution establishes that "the right to initiate the process towards self government lies with all the Provincial Councils concerned or with the corresponding inter-island body and with two-thirds of the municipalities whose populations represent at least the majority of the electorate of each province or island. This requirement must be met within six months from the initial agreement adopted to this effect by any of the local Corporations concerned". Should this requirements not be successfully met, they may only be repeated after five years. However, article 151 establishes a much quicker way to access self-government, provided the following conditions are met: approval by three quarters of the Municipalities of each Province concerned, representing at least the majority of the electorate of each one, and that the initiative is ratified in a referendum by the absolute majority of the electors in each province.

Portugal stand out. In France regions have been acquiring greater political autonomy since the passing of the 1982 Defferre law on regionalization. Nevertheless, and despite significant advances in recent years, the level of self-rule in France is still extremely restricted in comparison to that of regions in federal states, or in Spain. In Portugal, a considerable level of autonomy has been granted to the islands of the Azores and Madeira. On the Continental regions, the decentralization process is still at its early stages. In both countries the process of regionalization is still relatively weak, and the power granted to the regions, or their capacity to implement their own autonomous economic policies is seriously limited by law and budgetary shortages.

Lastly, in the rest of the EU, regions are nothing more than administrative entities. In spite of the lively debates going on fundamentally in the United Kingdom on the advantages and disadvantages of devolution of powers to the regions, little progress has been made. Consequently, regions in these countries have no power to design and execute their own autonomous policies.

Contrasts in regional autonomy go hand in hand with differences in budgetary allowances to regions in order to implement growth promoting policies. There are strong contrasts in budgetary capacity among countries where a certain transfer of power and competences to regions has been achieved. Whereas in Belgium regions and language communities have at their disposal a budget which amounts to 50% of the total federal budget, and similar percentages are administered by German *Länder*, budgetary allowances to regions in France and Portugal are almost negligible. Although the budget at the disposal of French regions has been multiplied by 8 between 1977 and 1990, it still represents a meagre share of the total French budget. In between those two poles we find Spain and Italy. In Spain, after the brisk regionalization process of the 1980s, regions will control shortly 30% of the total national budget. Italian regions have less financial autonomy, but this is likely to increase with the rising territorialization of Italian politics.

However, even in the cases of most extreme budgetary decentralization (the Belgian or the German case), it is highly doubtful that regional governments will have enough power to pursue the policies they consider to be more adequate to promote growth within their regional boundaries. The lack of budgetary means might prove to be an unsurmountable barrier to the implementation of growth promoting policies. And even in the case that regional governments have both the legal rights and the budgetary capacity to implement their own growth promoting policies, it is unlikely that they will be capable of achieving the growth effects they were designed for. The existence of trade and monetary unions within nations contributes to diluting the positive or negative effects of regional measures over the whole national territory. Therefore, growth promoting policies might not only foster growth in the regions where they have been implemented, but -via industrial and trade links- in neighbouring regions, which thus became free riders of the process of growth.

The difficulties of implementing growth promoting policies by regional governments are exacerbated by the fact that there is not a clear image of the competences of regional governments. Even in countries at the early stages of devolution -like France- regions are starting to have greater competences in certain key sectors like socio-economic planning, education and infrastructure. In Belgium, Germany, and in several Spanish regions, regions enjoy great levels of autonomy which limit the action of the State. Education, scientific policy, industrial policy, public works, transport, urbanization, environment, social policy, and policing, are to a greater or lesser extent in the hands of regions. However, the line separating national and regional competences is not clearly perceivable by citizens, who often find it difficult to discern what is being done at a national level and what at a regional one. Consequently, in regional elections, parties encounter enormous difficulties in order to articulate competing options, centred around policy issues at a regional level. This fact contributes to the polarization of regional election campaigns around general national issues, rather than on matters on which regions have real competences. The relationship between regional electoral results and the policies applied by regional governments is thus weakened, since debates in electoral campaigns at a regional level often focus on questions which have

little to do with the actual electoral programmes of the competing parties.

In connection to the previous factor, we discover the lack of a clear cut perception of regional institutions and politics by the electorate. The regionalization process in most Western European countries is still too young to be completely perceived and comprehended by the electorate, aside from those regions where historical identity constitutes a cohesive force, that is reflected in regional electoral outcomes (Hueglin, 1986). In France, for example, only 43% of the electorate considered themselves well informed about the activities and competences of the Regional Councils (OIP survey, 1994), and almost half of the regional electorate did not even know the name of their local president of the Regional Council. In Spain the perception of the activity of regional governments is blurred by a lack of information about regional policies, and in some cases, by what is regarded as a certain duplication of competences between the State and the region (i.e.: in Spain some roads are dependent on the regional governments, while others are under the authority of the State). In the Italian context, the activities of regional governments are neither well known by the population (especially in contrast with the activities of the State), nor are they considered very highly. As Cammelli points out, the region as an administrative entity lacks visibility (1990, p. 166). And even in Belgium -a country which has been strongly split along regional lines- the cost-effectiveness, visibility and legitimacy of regional policies is far from being self-evident (de Winter, 1994).

This meagre visibility of regional institutions turns out to be a serious barrier also for the promotion of networks of economic, social and political actors, as in the case of the Italian industrial districts. Regional governments, official and regional development agencies are thus often not considered as valid poles on which to secure the heart of these networks.

The lack of visibility of regional institutions and regional policies is translated into

meagre electoral turnouts¹⁷. As a general rule¹⁸, turnout in regional elections tends to be lower than turnout at national elections, with the exception of extremely contested electoral campaigns or strong turnouts in regional elections in order to punish the ruling party at the national level. Only European elections attract in most countries a lower percentage of the electorate to the polls. Relatively low electoral turnouts are thus a clear sign that regional politics matter less -or are perceived to matter less- than politics at a national level.

In addition, regional elections are often the battlefield where citizens cast a vote on national political conflicts, which have little to do with the actual regional situation. The use of regional voting by the electorate as a punishment vote for the national government is not uncommon. It is more extended in the countries where the level of devolution of powers to regions is limited. This is clearly the case of France, where regional elections are often transformed into referenda in order to sanction or condemn the action of the national government. Even countries with a stronger regional tradition, such as Belgium, Germany, or Spain cannot escape this tendency. In Germany, there is a long practice of protest vote in regional elections, which resulted in high vote at the regional level for the SPD during the 1950s and 1960s, increases of vote for the CDU during the governments of Brandt and Schmidt, and a decline of CDU vote during the 1980s. As a consequence, the political orientation of regional governments often counterbalances the power of the national government.

Despite the recent expansion in regional competences and the progress of the regionalization process in several European countries, the tendency to cast protest votes in

¹⁷ Electoral turnouts in regional elections, however, are strongly influenced by factors like whether regional elections coincide with national or local elections, or are held alone. Whenever regional elections coincide with other calls to the polls, turnouts tend to be higher. This fact greatly influences factors such as high electoral turnouts in Italian and Spanish regions with probably a weaker regional identity, with respect to other 'historic' or 'special' regions, where regional elections are often held separately.

¹⁸ This rule does not hold in countries with compulsory vote, like Belgium, where turnout at different elections is very similar (Ackaert, de Winter and Swyngedouw, 1994).

regional elections has not decreased. Regional elections in the early 1990s show that in all of the countries included in the analysis (but in Italy, and Belgium) the regional vote seems to be not only a vote to select a certain regional political option, but also a protest vote against certain policies led by national governments. As a consequence of this, the end of the 1980s and the beginning of the 1990s marked a clear decline of the sway of left wing parties in the regional scene of those countries with left government. France and Spain are the most clear examples of these trends. Protest vote against Socialist-led governments at the national level resulted in a rightward shift of the regional electorate. In France, this situation converted a previously very heterogeneous political scene at the regional level into a right-wing field and led to the formation of right-wing regional councils in all French regions but Burgundy, Limousin, and Nord-Pas de Calais. The gaulliste RPR became the leading regional force in 11 regions, while the liberal UDF held the greatest share of votes in ten other regions. Only in the Nord-Pas de Calais was still the Socialist party the leading political force.

The 1995 regional elections in Spain have accentuated the role of regional vote as a protest vote. Electoral strategies of opposition parties everywhere were based not on regional issues, but on national questions (and mainly in corruption and other scandals affecting the governing socialist party). The consequence was a major Socialist defeat. The Socialist party has only been able to cling to power in its three southern strongholds of Andalusia, Castile-La Mancha, and Extremadura. A meagre compensation in comparison to the 12 regional governments they held eight years before.

In contrast, the German SPD experienced at the beginning of the 1990s a significant advance in regional elections. The vote for the Social Democrats was partly a punishment vote for the CDU of Helmut Kohl. The German Christian Democrats had won the first national elections held after the reunification almost by a landslide. However, the process of reunification and its costs lead to a progressive erosion of the party's popularity. This was translated into significant advances of the SPD in the traditionally CDU led *Länder* of Lower

Saxony and Rhineland-Palatinate. Out of the 11 *Länder* of the former Federal Republic, the CDU remained as the leading regional party only in Baden-Württemberg. This, however, has not yet provoked a similar downfall of the CDU at a national level, and right-wing forces have continued to govern in most of the former GDR *Länder* (bar Brandenburg) and in Bavaria, where the CSU managed to defeat all opposition parties in the last regional elections.

Only in certain areas of these three countries which display a strong regional identity, the incidence of national issues on regional vote is less conspicuous. The existence of a strong regional identity often comes hand in hand with the formation of strong regional parties, whose main immediate focus and source of power is concentrated on the regional arena, rather than on the national one. Regional parties have long remained in office in Bavaria, Catalonia, and the Basque Country. In Bavaria, the conservative CSU -in spite of having a permanent alliance with the Christian Democratic party- has been capable of maintaining its deep Bavarian roots. The Bavarian CSU has long been the most successful of regional parties. This conservative Bavarian party has secured the first spot in all regional elections in Bavaria since the end of the second world war, and has clung to power since 1958, after a short period in opposition, due to the coalition of all the other political forces in the Bavarian parliament. Nevertheless, the CSU is the only example of a successful regional party in a country in which regional politics almost completely dominated by national parties, and national elections by politicians who grew up in regional politics.

A fairly similar case to the CSU in Bavaria is that of the nationalistic right-wing *Convergència i Unió* in Catalonia. This party has achieved a relative majority of votes in all five regional elections since the restoration of regional autonomy in Catalonia. Majority nationalistic right-wing parties are also found in the Basque Country and in Navarre. In the first case the Christian Democratic PNV (*Partido Nacionalista Vasco* -Nationalist Basque Party) which in recent regional elections has not surpassed the 30% threshold of votes. In Navarre, the UPN (*Unión del Pueblo Navarro* -People's Union of Navarre) has been able in recent years to displace the Socialist party from the top spot.

Moreover, in several other Spanish Autonomous Communities, regional parties enjoy a considerable degree of support. In most cases (Andalusia, Aragón, the Canary Islands, and Valencia) centre right regional parties predominate. Left wing regional formations are strong in the Basque Country and Galicia.

In the Spanish regions with solid regional identities and strong regional parties, two different patterns of vote are observed in regional and national elections. Parties of national scope score better in national elections, than in regional ones. This is clearly the case of the Socialist party in Catalonia: whereas in several national elections it has been the main political force in the region, it has never been capable of defeating *Convergència i Unió* in regional elections. Similarly vote for nationalistic parties decreases in the Basque Country in national elections.

Protest votes are less evident in the cases of Italy and Belgium. Patterns of vote in regional elections in these two countries do not differ greatly from the patterns of vote in national elections. In Italy, the vote for the left is concentrated mainly in the Centre (the regions of Emilia-Romagna, Tuscany, and Umbria) and in the industrial declining region of Liguria. In the rest of the country, the dominant party had long been the Christian Democratic party, a position which in some regions had held for over forty years. The collapse of the traditional Italian political panorama in the last few years is, however, not very likely to bring about radical changes in this right-left distribution. In the last general and regional elections majority vote for the Partito Democratico della Sinistra (PDS) has been geographically concentrated in the Centre, whereas former right and centre votes in the North have been transferred to the Lega and to Forza Italia, and in the Mezzogiorno to the Alleanza Nazionale and to Forza Italia.

Moreover, Italy constitutes an example of the rising influence of regional formations in the political arena. The special statute regions of Trentino-Alto Adige and Valle d'Aosta, have a long tradition of regional parties, whose main aim is to fight to preserve and enhance

the rights of German and French speaking minorities in these regions. The SVP in Trentino-Alto Adige and the Union Valdotaïne in Valle d'Aosta are at present the main political forces in both regions. Furthermore, regional blocs exist in Sardinia, and Friuli-Venezia Giulia. However, the most significant phenomenon in recent years has been the burst of regional parties in the North of Italy on the scene. The growth of anti-system regional formations like the Lega Lombarda, first, and, then subsequently, in other Northern regions like Piedmont, Liguria, Veneto, Friuli-Venezia Giulia, and to a lesser extent Emilia-Romagna, have contributed to the reshuffling of the Italian political system in the last few years.

Finally, in Belgium the whole political spectrum is divided along regional lines. Hence regional vote follows long established patterns, which are also reproduced at the national level: left wing socialist support in the mainly French speaking areas of Wallonia and Brussels, and Christian Democratic hegemony in Flanders.

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The results of the statistical analyses I have conducted are essentially modest, given the lack of political data at a regional level encountered and the above-mentioned numerous problems in transforming theory into indicators and variables. Results are not extremely robust, and therefore should be considered with extreme caution. Nevertheless, the results of the cross-sectional analysis for all the Western European regions with a certain degree of self-rule show that there is little or no relationship between regional growth trends and the regional political panorama. High growth occurs both in regions with strong absolute majorities, as well as in regions with coalition governments; or in regions with left, as well as with right wing governments. The degree of autonomy or the nature of the relationship between national and regional governments are also not correlated with growth rates. And no single combination of political conditions within a group of regions seems to be associated with high growth.

Is this lack of correlation a result of poor datasets or of the lack of adaptation at a cross-sectional level of factors pointed out by theories about the association between political conditions and regional growth problems? It is true that the paucity of the datasets to a certain extent determines poor results. Acknowledging this, however, does not hide the fact that probably the theoretical factors determined and developed either at a national level, or on the basis of case study analysis, are to be, at least, regarded with prudence when trying to generalize and apply them at a cross-sectional regional level in Western Europe.

The empirical analysis displays that there seems to be no relationship between key factors pointed out by corporatist and socio-economic restructuring literature, such as the political orientation of governments, the electoral turnouts in regional elections, or the capacity to implement autonomous policies. Economic performance in regions sharing fairly similar political characteristics vary enormously. And simple access to power devolution or to autonomy is not a nostrum to achieve higher economic performance. Although in another study I have shown that for the Spanish case, power devolution to the regions brought about a very slight conjunctural positive effect, this effect was probably more the result of the changing of the dominant elites at a regional and local level (and hence of the implementation of different policies), than of the simple process of access to autonomy. The waning of this positive effect in the late 1980s and early 1990s seems to confirm this hypothesis (Rodríguez-Pose, 1996).

There are plenty of examples of regional institutions and governments, that in spite of having large autonomous powers and the capacity to set in motion policies which could be considered as more adequate and responsive to local needs, have been incapable of taking advantage of these conditions. The case of the special statute region of Sicily is a flagrant example. High levels of autonomy over the last forty years have not been translated in a closer or different association of political conditions and economic outcomes than in neighbouring regions in the Mezzogiorno, which long lacked the minimum capacity to set up their own policies and, since 1970 have enjoyed a much lower level of autonomy than

Sicily. Similar patterns are observed in the Spanish case. Comparable levels of autonomy, and of overall political conditions in Catalonia, Galicia and Andalusia, have led to the implementation of radically different policies. While Galicia and Andalusia adopted for long fairly passive attitudes, economic, industrial and development policies were since the very beginning top priorities for the Catalan regional administration.

The association between the orientation and power of political parties and growth rates is another tenet which cannot be applied at a regional level. Although this result might be biased by lack of data on trade unions, there is no evidence to support that the strength or the permanence for long periods of a party in regional governments imply higher or lower performances in growth. It is true that the longer a party stays in regional office, the greater are the chances for it to implement their own policies. This would have seemed to favour high growth rates in Bavaria, Catalonia, or Emilia-Romagna, but it has certainly not been the case in Andalusia, Basilicata, Calabria, Galicia or Sicily.

Electoral regional turnout as a measure of civic involvement in regional issues performs no better. Even in some of the regions with higher regional identity there seems to be a lower involvement in regional politics. Electoral turnouts in regional elections (regardless of factors such as the coincidence of regional elections with other calls to the polls) are significantly lower in regions where, despite having a strong regional identity, civic traditions and levels of associationism are less developed. Regional electoral turnout in Sardinia, Sicily or Galicia has traditionally been lower than, for example in Emilia-Romagna, Tuscany or Madrid.

In sum, it could be stated that regional politics still lack the presence at a European level to have a discernible association with growth trends. The cross-national differences in regional powers, the defective perception of the regional phenomena by electors, the tendency to use regional vote for other purposes rather than choosing between distinct political options at a regional level, the scant budgetary prerogatives of regions, and, in

short, the absence in most cases of strong regional identities or the will to transform a strong regional identity into political action, make up serious handicaps for the development and implementation of growth promoting policies by regional administrations. And even when these are set in motion, they are often undermined by national and international economic trends which impede the foundation of a close link between economic growth and regional politics and institutions at a European level, and by the lack of dynamism of certain regional administrations.

Intermediate forms of government and institutions, and regional political issues are less related to economic outcomes, than local and regional sets of social conditions. From this perspective, I agree with most theorists working on industrial districts on the fact that economic outputs and outcomes are more closely related with long social traditions and social conditions than with present political circumstances. Phenomena such as the Italian industrial districts, or the development of regions like Baden-Württemberg, Catalonia or Rhône-Alpes would probably have happened even in the absence of regional governments and institutions. Industrial districts in West Jutland and Southern Norway provide a clear example that fairly similar structures can be achieved without the participation of intermediate levels of government¹⁹. Conversely, access to regional autonomy and the setting up of regional institutions has not provoked significant changes in economic terms in the Mezzogiorno or in Western and Southern Spain.

¹⁹ It might be argued that, in the cases of West Jutland and Southern Norway, national governments might have fulfilled the role of regional institutions by providing a level of government sufficiently local for dense networks to be established. However, institutional power is exerted differently by national and regional governments. National governments have a larger sway over the economic destiny of their territories than regional governments, and even in cases where regional governments have benefitted from a high level of devolution, the genesis of industrial districts is more often the result of a consociational process than of just active intervention by regional governments. Moreover, if national governments in Scandinavia operated similarly to regional governments in other European regions, how could the fact that the industrial district phenomenon in Denmark and Norway is circumscribed to a few and extremely reduced areas, whereas in Baden-Württemberg, in Emilia-Romagna or in Tuscany it covers a large proportion of the territory?

Does this mean that regional politics is fully unrelated to regional economic performance? Problems with data provide us with no solid grounds to support this claim. Regional politics and policy seem to be too recent and too restricted to have a clearly discernible influence on economic performance across Europe. But this does not mean that, in case specific contexts, the combination of dynamic regional governments and institutions with adequate social conditions and traditions has not favoured growth. Recent experiences of the industrial districts in the Third Italy, and of the region of Baden-Württemberg suggest that there is a fairly close association between the capacity of a politically and institutionally rich environment to set up encompassing networks of economic and social agents, and economic growth in a post-Fordist society. Adequate policies and institutional intervention often lead to greater co-operation among firms, which in turn results in a more appropriate use of local resources and on the genesis of economies of scope and of external economies. Regional governments and institutions in these areas have played a non negligible role in the formation of networks, and regional agencies and industrial policies have fulfilled an important task in the creation of extensive networks of firms and in achieving a closer interactions between the local economy and the local society. Therefore, the absence of intermediate levels of government can be considered in the long run as a hindrance for the full development of the post-Fordist growth spaces. It is undeniable that industrial districts in the Terza Italia and similar structures in Baden-Württemberg owe a certain percentage of their level of inter-firm co-operation to the active intervention of regional bodies and institutions.

However, one must bear in mind -as Cooke and Morgan underline for the case of Baden-Württemberg (1992b, p. 2-3)- that the role played by regional policies, and hence of regional politics and institutions, in inciting economic growth in these 'new growth spaces' has been much more a facilitating role than a determining one. Evidence from case studies demonstrates that in certain regional cases, adequate politics and policies at the regional level seem to have had a positive influence in the genesis of growth in certain areas, and, in contrast, inadequate political action appears to have deterred development in other regions

where insufficient conditions are met. Nonetheless, the presence of strong and dynamic regional governments and institutions, and the implementation of suitable industrial and economic policies at the meso level does not by itself suffice to promote high growth in Western Europe.

In short, it can be stated that regional politics can do little to spur economic growth without the appropriate infrastructure and human resources, without the necessary capital, technology and information, and, above all, without the essential entrepreneurial capacity to set productive activities in motion (Trigilia, 1992a). Politics and policies might play a certain and restricted part in the genesis of growth in or in the lack of growth of certain areas, provided other factors are present. The role of politics and policy at the regional level is, nevertheless, a secondary one in the genesis of economic growth.

CONCLUSION

In the last decade and a half there has been a revival of the interest in economic growth. During the 1950s and 1960s economic growth had become one of the main disciplines in economic theory. It was then when the neoclassical theory of growth was developed and the bases for the present debates were set. However, during the late 1970s and early 1980s the interest and thus the scientific output concerning growth decreased.

The second half of the 1980s and early 1990s have brought a renewal of the attention in the topic. Economic growth has once again become one of the leading fields not only in economic theory, but also in several other branches of the social sciences.

This renewal of interests has been carried out from two different approaches. On the one hand, there has been a rapid development of what is known as the *endogenous growth theory*. This basically economic approach to the fundamentals of growth arose in contrast to the neoclassical theory of growth. The neoclassical models of growth are revised and modified by introducing other variables into the equation of growth. Factors such as technology and, to a lesser extent, human resources and social and political conditions are increasingly considered. The main contribution of the endogenous growth theory has been, however, endogenizing technological choice, that is, making technology an endogenous outcome of an economic system. This apparently simple step has stirred a lively debate about questions such as constant and diminishing returns to capital, convergence across nations and regions, perfect competition and innovation. Endogenous growth theorists have also paid some attention to the relationship between economic growth and social and political conditions. Variables depicting social and political structures have been increasingly introduced into growth equations. Nevertheless, the role reserved for non-economic variables in equations of growth has been essentially a secondary one. The correlation between social and political factors and economic growth has been always considered as statistically fragile, especially when confronted with economic variables. Capital and technology have thus remained as the basic explanatory factors in growth models.

On the other hand, a vast and heterogeneous literature on socio-economic restructuring and structural change which started at the beginning of the 1980s is becoming increasingly concerned with growth and its related questions. This approach, developed together by sociologists, political scientists, geographers and economists, has been fundamentally concerned with how technological, social, and political changes are affecting the prevailing socio-economic model during the mass-production era, and whether we are witnessing the birth of a new system. The interest in structural change and in the genesis of a new social and territorial structure has led -albeit in an indirect manner- to the analysis of the question of economic growth. From this perspective, if the traditional system of production and the whole socio-economic structure associated with it are undergoing a serious crisis which clearly exceeds the limits of the capitalist cycle, then traditional patterns of growth are also being altered. Geographical areas more adapted to the new socio-economic environment and to the new market demands are in better conditions to produce more and thus grow at a higher rate. In contrast, areas burdened by strong economic, social and political rigidities struggle much more to adapt to the new circumstances, and thus grow at a slower pace. Hence the process of socio-economic restructuring gives new opportunities for the emergence of the so-called 'new growth spaces', whereas other areas remain isolated from the benefits of the process.

Nevertheless, and in spite of the fact that both approaches deal with different aspects of economic growth, the interaction between endogenous growth theory and the literature on socio-economic restructuring and regional change has been almost non-existent. This fact is reflected in almost all fields. Researchers in endogenous growth theory not only come from different backgrounds as researchers on socio-economic restructuring; they also use different philosophies, theories, methods and even a diverse unit of analysis in their approach to growth. Endogenous growth theory has been primarily concerned with the testing of neoclassical hypothesis and assumptions. Therefore the theories and methods used did not differ greatly from those employed by neoclassical economists. Deductive approaches and cross-sectional linear regressions have become the most usual tools for the testing of the association between economic growth and sets of independent variables which always

included capital and technology as basic ingredients. Moreover, since one of the catalysts for the renewal of interest in growth in the field of economic theory has been the compilation of new and more complete national growth tables, the nation has remained as the most important unit of analysis. The regional dimension has been considered by several significant studies in the endogenous growth approach, but, as a whole, regions have awakened little interest in endogenous growth theory.

Literature on socio-economic restructuring has adopted a considerably different approach to the question of economic growth. First of all, and as was already mentioned, growth has been dealt with in a much more indirect way than in the endogenous growth theory. Whereas in traditional economic growth analysis the original question inspiring the research has always been to try to establish which were the factors behind economic growth, the literature on socio-economic restructuring and structural change focuses primarily on what were the causes provoking the present structural change in advanced economies, and whether recent transformations are generating a new spatial distribution of wealth. It is only from this perspective, that the question of economic growth has been tackled in some of the 'new growth spaces' by structural change theorists.

In general, the approach adopted by the literature on socio-economic restructuring has been fundamentally theoretical. Concepts such as regulation models and accumulation regimes, stemming from the French Regulation School, are blended with other notions from different origins, such as flexible specialization and production, technological paradigms, and diversified quality production. The outcome is a complex theoretical body which brings society under the mass production model, into opposition with society under the flexible production model. The taxonomy is, in brief, the Fordist versus the post-Fordist society.

This approach to growth has put a greater emphasis on the social and political conditions which impinge on growth. To a certain extent, this is the result of a background bias. Sociologists and political scientists working on socio-economic restructuring processes have introduced their educational background into the analysis of growth. However, the

stress of the literature on structural change in the association between social and political conditions and growth is also a consequence of method. When studying recent transformations in the production system and in the social and political structures, these analysts discovered that there seemed to be a certain relationship between social and political changes and changes in traditional patterns of growth, and that thus the local arena was the ideal space for the interaction between social, political and economic conditions in order to generate growth.

With regard to the method of analysis, empirical tests of the theories of socio-economic restructuring and structural change -in contrast with endogenous growth approach- have almost never been carried out on a cross-sectional level. Case studies have been the main empirical approach. A large number of sectoral studies -mainly in the fields of production and industrial relations- have been conducted. The industrial plant and the industrial sector have become important units of analysis. Geographically, much attention has been focused on the rising areas of the Silicon Valley, the Orange County, the Phoenix area, the Industrial districts in the Terza Italia and Western Jutland, or the Regions of Baden-Württemberg and Rhône-Alpes, as the paradigmatic examples of the 'new growth spaces'. Hence, the theory of socio-economic restructuring and structural change has been constructed on a extremely reduced basis of sub-national case studies, whose characteristics and scope have been thoroughly analyzed and reanalyzed by the literature.

The focus on sub-national entities as the geographical unit of analysis is also an exclusive feature of the literature on socio-economic restructuring which is not shared by endogenous growth theorists. According to some observers, the processes of globalization and de-regulation associated to present changes are increasingly blurring national borders and bestowing a greater protagonism to place-specific phenomena. As a consequence, sub-national entities, in general, and regions, in particular, tend to be considered as one of the most adequate units of analysis in the post-Fordist environment.

The failure of these two theoretical strands to meet has led to completely autonomous

developments of both theories. And yet, in my opinion, a greater interaction between both approaches would have definitely given rise to a better comprehension of the phenomenon of economic growth. On the one hand, the excessive concentration of the endogenous growth theory on capital and technology as the main factors spurring growth could have been tempered by more socio-political ways of analyzing the question. On the other hand, theories of socio-economic restructuring could have benefitted from a long tradition of cross-sectional approaches to growth in economic theories of growth, instead of focusing only on a few case studies, which, in my opinion, constitute more the exception than the rule.

In this thesis, I have aimed at bringing together these two branches of the analysis of growth, in order to try establish the connection between economic growth and social and political conditions at a regional level in Western Europe. The idea driving the research is that, according to the literature on socio-economic restructuring and structural change, recent transformations are introducing significant changes in traditional patterns of growth. As a consequence, new growth areas seem to be emerging in formerly intermediate and lagging regions, whereas some of the former core regions are undergoing a serious decline, due to the crisis of mass production industries. From this point of view, not only the shift in the economic arena is responsible for these changes, but also local social and political conditions play a significant role in determining the growth potential of any given area. The decomposition of the Fordist mode of mass production during the 1970s and 1980s is transforming radically the setting in which traditional growth analysis have been conducted. Economic factors which had inspired -and still inspire- the study of economic growth seem to be becoming increasingly mobile. The globalization of capital, information and technology and the lifting of trade barriers, could thus -at least in theory- lead to the promotion of growth in areas which traditionally had remained aside from world economic circuits. Hence, the traditional locational constraints for the establishment of production units and, thus, for the outset of economic growth, are apparently being removed.

The literature about socio-economic restructuring has put a strong emphasis on these phenomena and has looked for alternative explanations of the factors behind growth in certain

areas. These explanations do not disregard traditional economic factors, but are also heavily embedded in the relationship between social and political conditions at a local level and growth. In contrast, economic analyses of growth have remained almost completely unaware of the phenomenon of structural change. With the exception of some incursions in the fields of the increasing globalization of the economic and international trade, endogenous growth theorists are continuing to test the hypothesis of neoclassical analysts and trying to make other factors endogenous in the equation of growth.

However, it could be stated that the theoretically greater mobility of the traditional factors generating growth is not being paralleled by similar changes in cross-sectional growth patterns. It is certainly true that the last two decades have witnessed a significant transformation in regional growth across Europe. On the one hand, capital and urban financial centres and certain well-placed and well-endowed intermediate regions have prospered greatly, whereas the crisis of industrial declining regions has become more important in relative terms. In addition, some peripheral regions and specially tourist areas have enjoyed periods of economic expansion, which contrast with a serious slowdown in growth rates in other peripheral areas. The post-Fordist literature on growth has tended to focus on those areas which have undergone a more radical transformation: core cities, technological corridors, and industrial corridors. Nevertheless and as was said before, these examples in the literature represent more often the exception than the rule. The genesis of 'new growth spaces' and industrial districts is to a large extent circumscribed to a few dynamic areas. Empirical evidence tends to demonstrate that, despite the recent important structural transformations, patterns of growth at a regional level are more resistant to change than what could be inferred from changes in locational factors. Some growth trends which were already observed during the Fordist era are still evident. There is a ever greater concentration of wealth in large urban areas and in financial centres, while most of the formerly backward areas still lag behind. Taking this evidence into account, it could be thought that the processes of socio-economic restructuring and the supposedly greater association between growth and local social and political conditions is not affecting the whole territory, but just those areas which, because of their greater dynamism can be considered

as 'new growth spaces'.

This analysis of the socio-political basis of regional growth in Western Europe has tried to check whether the close association which has been observed between social and political conditions and growth behaviours in the 'new growth spaces' can also be established on a cross-sectional basis for a large number of regions in Western Europe; whether the increasing removal of barriers which impeded the mobility of traditional growth factors is rendering more visible the role of social and political factors in the genesis of economic growth; and whether economic performance across Europe can be explained by purely regional and local factors, rather than national ones.

The empirical analysis relies on the use of statistical methods which try to overcome the problem which endogenous growth theorists have faced when introducing social and political variables into growth equations; namely the lack of robustness in the association between social and political factors and growth. The use of linear regressions in the analysis would have reproduced the problems of simultaneous causation, spatial autocorrelation, omitted variable bias and an excessive focus on parsimony and linearity common to most economic models of growth. Therefore, there was a need to resort to more unusual statistical analysis techniques, capable of superseding these shortcomings. Cluster analysis was the chosen method since it provided a feasible way of grouping regions according to their social and political structure and comparing the resulting clusters with the sets of regions established *a priori*, based on economic growth criteria.

The results obtained should, however, be handled with extreme care. Several obstacles restrict the elaboration of large cross-sectional analyses at the regional level for Western Europe. Lack of data is perhaps the most important one. Although a considerable effort was made in order to gather social and political data over time and across regions in Western Europe, shortage of data represents a serious handicap for an adequate testing of hypothesis. Complete sets of data for Greek regions were impossible to compile, and missing cases and variables are common features for regions in other countries such as Denmark,

Ireland, or Portugal. Short time series is also a significant obstacle. The absence of data prior to 1970 in all cases (bar GDP), and to 1980 in most variables has impeded the application of other alternative quantitative methods, such as time-series analysis.

Data shortcomings are enhanced by the fact that existing variables are perhaps not the most adequate to test theories about the connection between growth and social and political factors. This problem has been especially evident in the political analysis. In the social database, variables involved aspects such as the make-up of the labour force, unemployment, demographic structure, population change, educational enrolment, and urban structure, which, to a greater or lesser extent, had been subject of attention by the major theories about the relationship between social structure and economic growth. In the political field this is simply not the case. Variables about the political power of regional parties, their parliamentary strength, the orientation of the parties in office, the relationship between national and regional governments, and the budgetary autonomy of regions are possibly the best available on a cross-sectional basis, but, at the same time, are insufficient and incomplete to undertake the task of checking for a large number of European regions the theories about the formation of networks of political, institutional, social and economic agents developed for a few European cases, and which represent the main examples of recent theories linking political and institutional frameworks at the regional level with economic outcomes.

Aware of these limitations, some significant conclusions can be extracted from the empirical testing of hypothesis. First of all, it can be stated that, despite growing claims that regions are becoming the basic unit of economic analysis, and that the regional dimension is turning out to be the most adequate realm for the interaction of political, social and economic conditions in a post-Fordist world, the empirical analysis does not provide enough signs to support these statements. The globalization of the world economy, the flexibilization of the production system, the current processes of political integration and de-regulation trends might have contributed to bring regions and the regional dimension to the fore. Much attention has been directed towards the emergence of individual regions and local areas as

the new post-Fordist growth spaces. However, on a cross-sectional level, this phenomenon is far from being widespread. Regional growth patterns in Europe during the 1980s are still as bound by the national dimension as they were during the climax of the mass-production era in the 1960s. The greatest variation in social and political data is found across nations and not across regions within a nation. Hence, it could be stated that economic, social and political indicators are still greatly determined by the national dimension, and that the nation-state still constitutes a very solid unit for the analysis of current social, political and economic transformations. Regional specific characteristics and diversity only come to light when social and political variables are nationally weighted. It is only then, when the major features described by the literature on socio-economic restructuring and structural change become visible at a sub-national level.

The results of the empirical analysis also show that there is a fairly close association between regional social conditions and economic outcomes during the 1980s and early 1990s. The groups of regions stemming from the cluster analysis performed with social variables tend to reproduce the regional sets which were established *a priori* according to their growth performance and the literature on the topic. This implies that, contrary to what has been inferred in endogenous growth models, the degree of association between economic outcomes and the social conditions of the area where economic activity takes place is fairly robust. This robustness is by no means the consequence of the correlation between only a limited number of social variables and growth levels, but of the interconnection of a large number of social factors and indicators (the whole local social community) that interact in order to furnish a set of adequate or less adequate conditions for the development of economic activity.

However there is no clear cut relationship between a single set of social conditions and the possibility of high or low growth. High regional growth seems to occur under very different social circumstances: very high initial activity rates, low growth of labour activity, average initial unemployment levels, and high levels of educational enrolment are identified with high growth in capital regions and urban financial centres. Contrasting social conditions,

such as high initial activity rates, low unemployment levels, an initial symptoms of an ageing of the population, and low educational attainment are also related to high growth levels, but in intermediate dynamic regions.

The same could be said for poor economic performance. Social conditions in two of the regional clusters with the lowest growth rates differ greatly. Peripheral less dynamic areas are distinguished by low initial activity rates, with high growth levels of labour activity, high initial unemployment rates and well below-average educational levels. Similar low levels of growth are achieved in industrial declining regions and the Italian Mezzogiorno. However, in this last group, initial activity rates fluctuated around the European mean, growth of activity was fairly low in the European context, unemployment rates were among the highest in Europe, the population structure was dominated by the youngest cohort, and educational levels were higher than in peripheral less dynamic regions.

In the light of empirical evidence, it could thus be claimed that there is a close association between rates of growth and certain sets of place-specific social conditions. However, does this mean that socio-economic restructuring has rendered the connection between social conditions and growth more meaningful or even more visible? There is no clear indication to support or reject that hypothesis in the analysis. The empirical results only reveal that in a time that has been considered as the outbreak of the post-Fordist era there is a clear cut connection between social and economic factors; that the persistence of disparities in growth levels in a world characterized by a much greater mobility of the traditional factors influencing growth might well be the result of underlying social structures. Nevertheless, no evidence deriving from the empirical analysis allows us to claim that this was not also the case in the era of mass production. The tenuous association between social variables and growth rates constantly described by neoclassical and endogenous growth theory might well be the consequence of the theories and methods used in their analyses, rather than of a real lack of connection between underlying social conditions and growth levels in the Fordist period. Using these premises, there is no ground either to assume or to reject that the relationship between growth and social conditions has experienced any change,

and that growth levels in the mass-production era were less correlated to place-specific social conditions than they seem to be in the age of flexible production. The only way to verify whether the process of socio-economic restructuring, the passage from a system of mass production to a more flexible one, and the globalization of the economic, are provoking changes in the relationship between growth and social circumstances would be to carry out similar analyses with data representing the social structure during the mass-production period.

For similar reasons, the close association between place-specific social conditions and growth levels does not imply that in the post-Fordist era, traditional growth promoting factors are losing a certain sway on the genesis of growth. It is true that under the new circumstances capital and technology, as well as other predominantly economic factors, are becoming much more mobile and that traditional development bottlenecks are being eradicated. Nevertheless, greater mobility does not necessarily signify a more equal access to these resources. In fact, as has often been mentioned, capital and technology have never reached in history such a high level of geographical concentration as they have in recent years. Large financial centres, and research and university complexes concentrate a considerable percentage of world capital and of basic and applied research. In contrast, most other areas of the world still have a limited access to these resources. Capital and technology still play thus a determining role in the genesis of economic growth. However, the empirical results of the analysis suggest that all the above-mentioned factors are closely related. Growth is to a large extent determined by the availability of capital and technology; and inherited and present social structures and conditions, in turn, determine the capacity of any given area to attract foreign or to produce its own capital and technology. Hence, the capacity of any area to grow at a higher or lower speed is intimately connected to the existence of satisfactory combinations of social conditions in any given space.

The connection between political and institutional conditions and economic growth at a European regional cross-sectional level is much less manifest. No statistically significant association between rates of growth in the 1980s and early 1990s and a series of variables reflecting the regional political structure could be extracted from the analysis. These negative

results might be strongly biased -as was already mentioned- by the lack of adequate sets of data and by the existing gap between the political arguments put forward by regional growth theories and the available data.

Nevertheless, several other explanations could be raised in order to try to interpret the lack of association between regional politics and institutions in the Western European countries where a certain degree of self-rule has been granted to the regions, and economic growth. First of all, the national influence over regional politics and institutions is even greater than on social conditions. Levels of autonomy and of transfers of competences are totally determined by national conditions. Moreover, contrasts within a group of countries whose levels of devolution range from the federalism of Germany or Belgium, to the centralism of Greece, the Netherlands, or the United Kingdom are far too great to be able to extract any common denominator.

Diverse levels of devolution are also reflected in the capacity of regions to design and implement their own autonomous policies and to create their regional institutions and agencies; factors that are of primary importance when it comes to analyzing the influence of local politics and institutions in the setting up of wide socio-economic networks. And different levels of devolution influence not only the constitutional capacity to create and set in motion these policies and institutions, but also determine the power to finance them. Once again significant national contrasts limit the capacity to compare dissimilar regional phenomena on a cross-national basis. Very often regions lack the competences and financial power to implement their own autonomous strategies directed to achieve greater levels of growth.

Finally, and given that the process of devolution of powers to the regions is in most cases still nascent and, in some cases, still under way, the visibility and perception of regional politics, policies and institutions by social and economic agents is still fairly indefinite and affects the transparency and efficiency of the actions undertaken by regional institutions. Consequently the regional political arena becomes quite often the field in which

to dispute over national arguments, or a springboard for politicians with national ambitions, rather than a forum for the development of regional interests.

An even if certain regions do have the power and competence to design and implement their own growth strategies and to set up their own institutions and local development agencies, nothing can be inferred on the degree of success of those policy schemes from a set of variables describing the local political structure. There are plenty of examples of regions which, in spite of having the necessary competences and budgetary powers to develop their own industrial policies, have either overlooked this type of action, or have pursued strategies and methods which have brought about little results. In contrast more imaginative actions undertaken by regions with less prerogatives have been more successful.

Under these circumstances, it is not surprising that, when considered from a cross-sectional point of view, the connection between sets of regional political variables and regional growth is difficult to untangle. This does not mean, however, that in case specific contexts, regional politics and institutions do not contribute to the formation of structures and networks, embracing large layers of the local society, which have become the germ of greater economic activity and greater growth. Regional institutions have played a substantial part the development of what have been considered as the genuinely post-Fordist landscapes of the industrial districts of the Terza Italia or Baden-Württemberg. However, these are the most favourable and successful cases in an overall panorama of regional administrations whose contribution to economic performance has been generally either very low, or almost non-existent. This is for example the case of restricted or non dynamic regional administrations in the Italian Mezzogiorno and in certain areas of Spain, where several decades of national intervention via development policies, and the corresponding contribution of regional administrations to these processes have not yielded the expected results. Some authors claim that long-term intervention together with lack of autonomy and of dynamism by regional institutions have indeed provoked perverse effects, discouraging rather than encouraging economic activity.

From a global viewpoint, the results of this thesis raise interesting questions about the emergence of a post-Fordist spatial model, as presented by some and -to a certain extent- radical sectors of the literature on the topic. In fact the elimination of traditional growth bottlenecks, and the greater mobility of the conventional growth factors have brought about considerable changes in growth rates, but they have not provoked the widespread and radical change that the profound technological and economic transformations would seem to suggest. Regional growth patterns and territorial models across Europe in the post-Fordist period tend to follow patterns which were already observed during the Fordist era. This evidence suggests that the process of transformation from a mass production society to a flexible production one is not just the result of changes in traditional locational factors, but of a long-term and very complex causal process, difficult to grasp by the analysis of a limited number of individual variables.

The results also raise questions about the extent and scope of the process of socio-economic restructuring. Radical and perhaps naive interpretations of the approach of structural change have tended to generalize as global patterns the processes of change and growth which have been observed in the 'new growth spaces'. This is, however, clearly not the case. The process of transformation in most areas is anchored by the specific social and political setting of every space, and local social and political conditions differ in most regions greatly from those which have contributed to the development of the 'new growth spaces'.

This thesis has been mainly concerned with the question of why did spatial patterns of growth linger on when, according to large sections of the literature, we were witnessing an era of substantial social, political and economic changes; why did recent transformations provoke only a limited reorganization in growth patterns; why has the phenomenon of the 'new growth spaces' not become a general one. In this respect, the empirical results of the analysis (and particularly of the social analysis) provide sufficient evidence to claim that pervading growth patterns at a regional level in Western Europe can be -to a greater or lesser extent- considered as the result of existing social and political conditions.

Nevertheless, too many questions have been raised throughout the analysis that still have to be answered. There is a need to conduct further cross-sectional research on the socio-political bases of growth in order to try to resolve questions like whether the association between socio-political circumstances and economic growth is more than a simple statistical association, or whether phenomena like those of the 'new growth areas' will gradually start to set their roots in areas which up to now have shown little sign of radical transformation. The time and spatial scopes of the analysis also need to be broadened.

Case studies and sector analysis should also not be ignored. There is a strong necessity to conduct further specific research on the socio-political bases of growth, particularly in lagging and intermediate regions and at the national level. In sum, there is a need to proceed the analysis of recent changes and transformations outside the traditional framework of the 'new growth spaces', in order to determine what complex set of relationships contributes to generate growth, and what are the social and political conditions under which the growth potential of any given area is severely limited. Only in this way, our knowledge of the complex combination of the economic, social, political, and cultural factors which determine growth across time and space will be improved.

STATISTICAL

APPENDIX

Table A.1

Annual Rates of Regional Growth Regressed on the Electoral
Support for the Main Regional Party

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
ELECSUPP	.169	.119	1.299	.909	1.429	.158

$R^2=0.028$
 adjusted $R^2=0.014$
 $F(1,69)=2.041$

Figure A.1

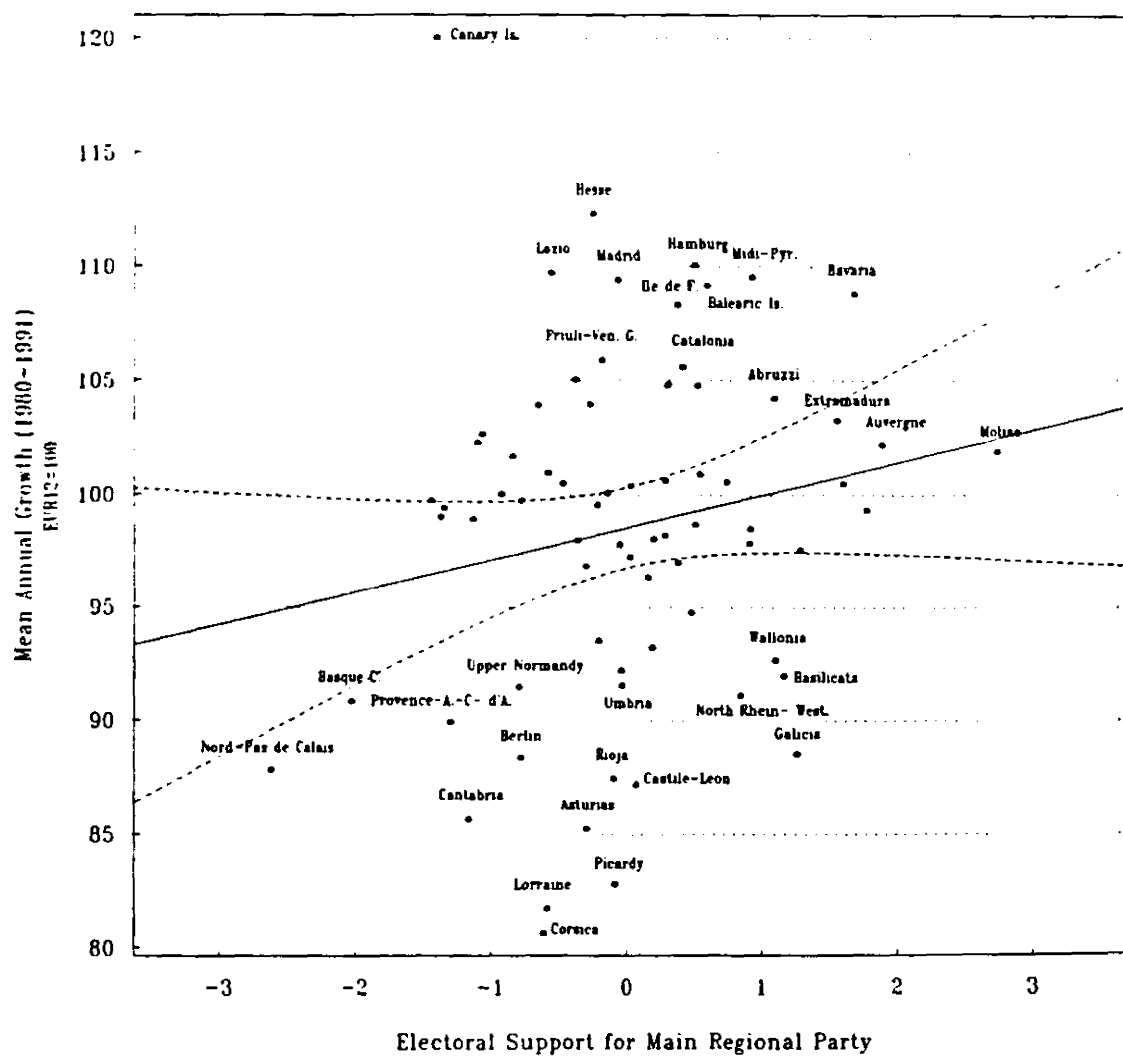


Table A.2

Annual Rates of Regional Growth Regressed on the Difference
Between the First and Second Regional Party

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
DIFBEPAR	.156	.118	1.225	.932	1.313	.193

$R^2=0.024$
adjusted $R^2=0.010$
 $F(1,69)=1.725$

Figure A.2

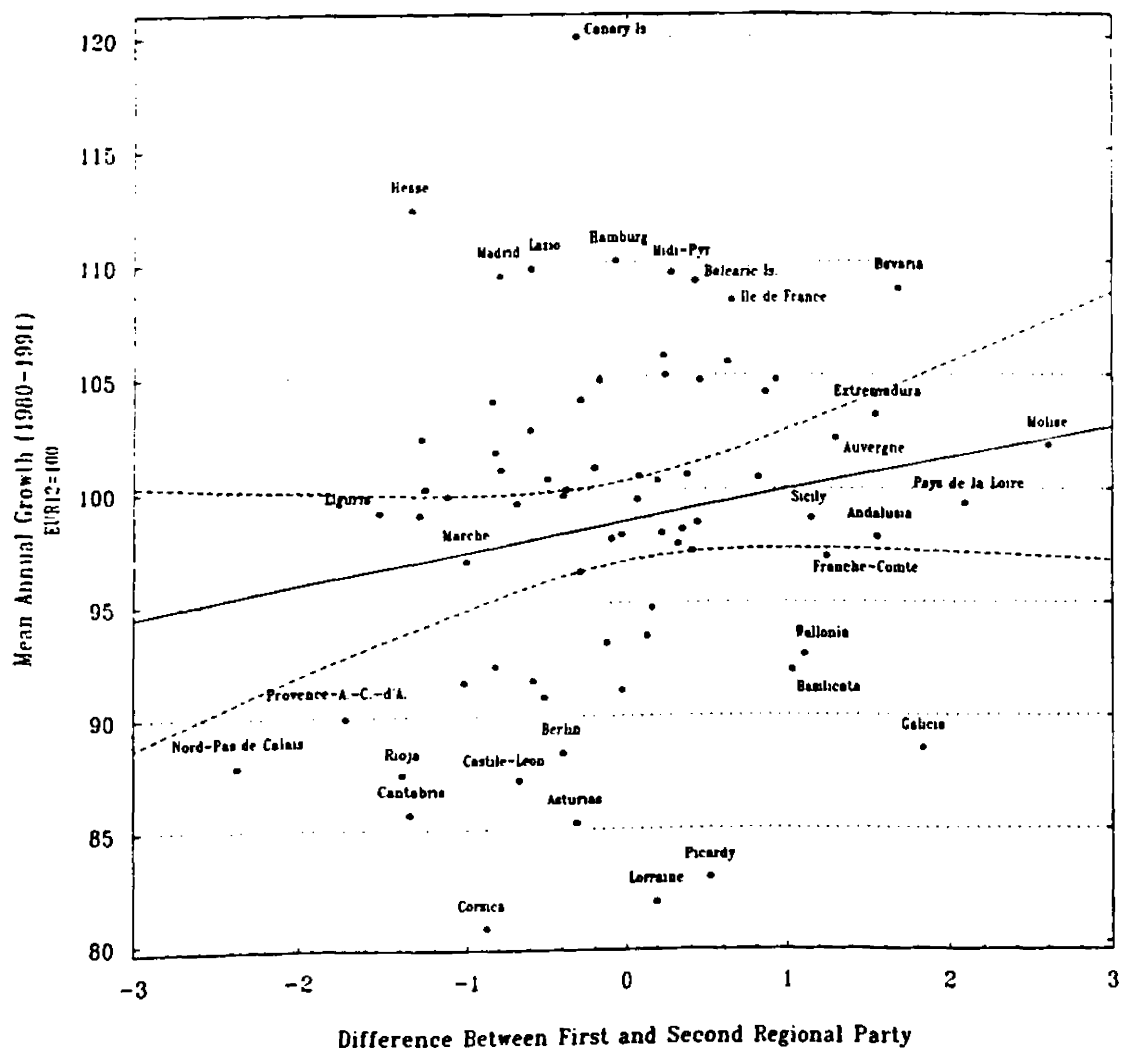


Table A.3

Annual Rates of Regional Growth Regressed on the Electoral
Evolution of the Main Regional Party

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
ELECEVOL	.238	.116	1.800	.884	2.036	.045

$R^2=0.056$
adjusted $R^2=0.043$
 $F(1,69)=4.146$

Figure A.3

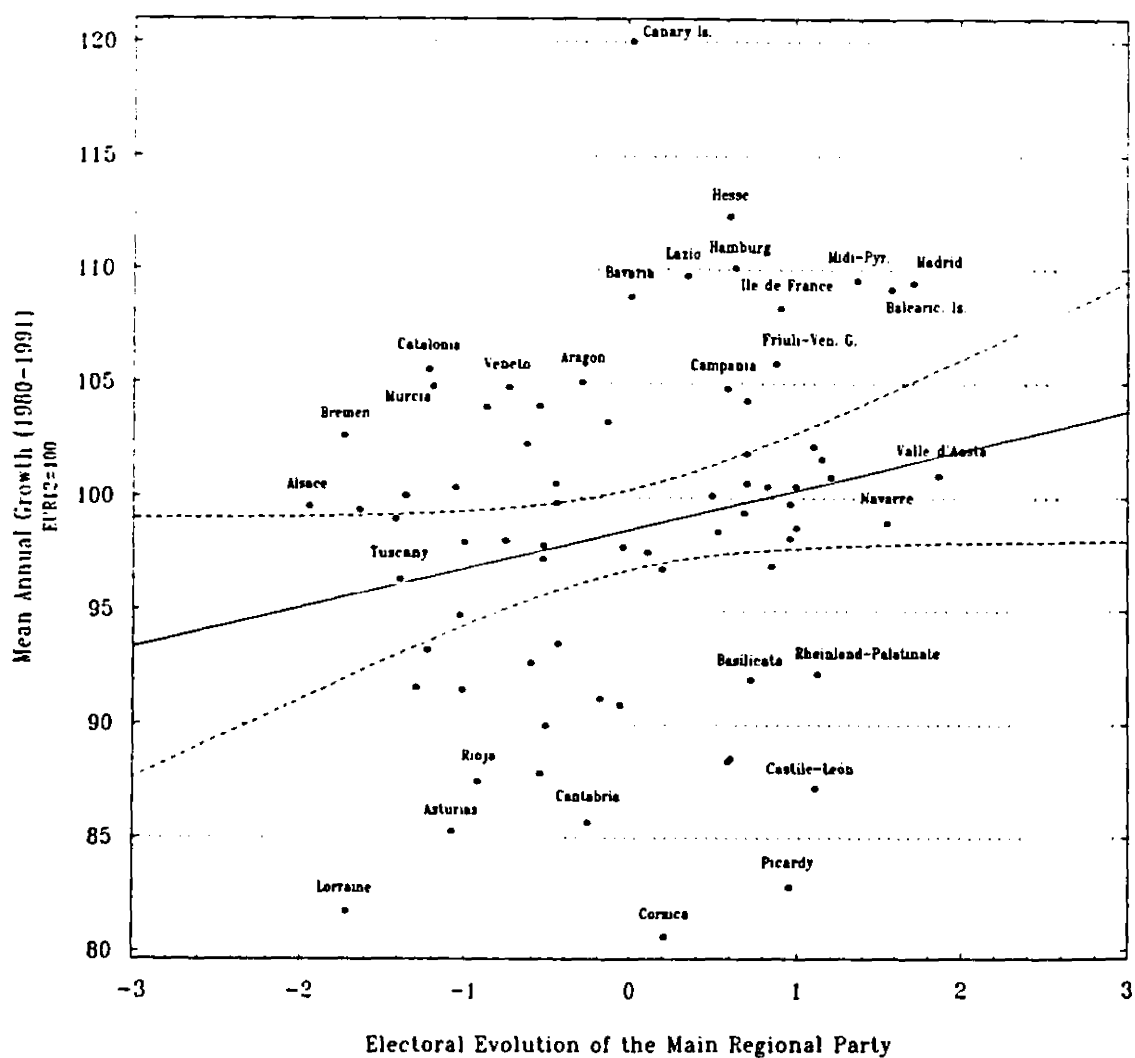


Table A.4

Annual Rates of Regional Growth Regressed on the Percentage
of Seats Held in the Regional Parliament by the Main Party

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
PERSEATS	.128	.119	.982	.913	1.075	.285
$R^2=0.016$ adjusted $R^2=0.002$ F (1.69)=1.157						

Figure A.4

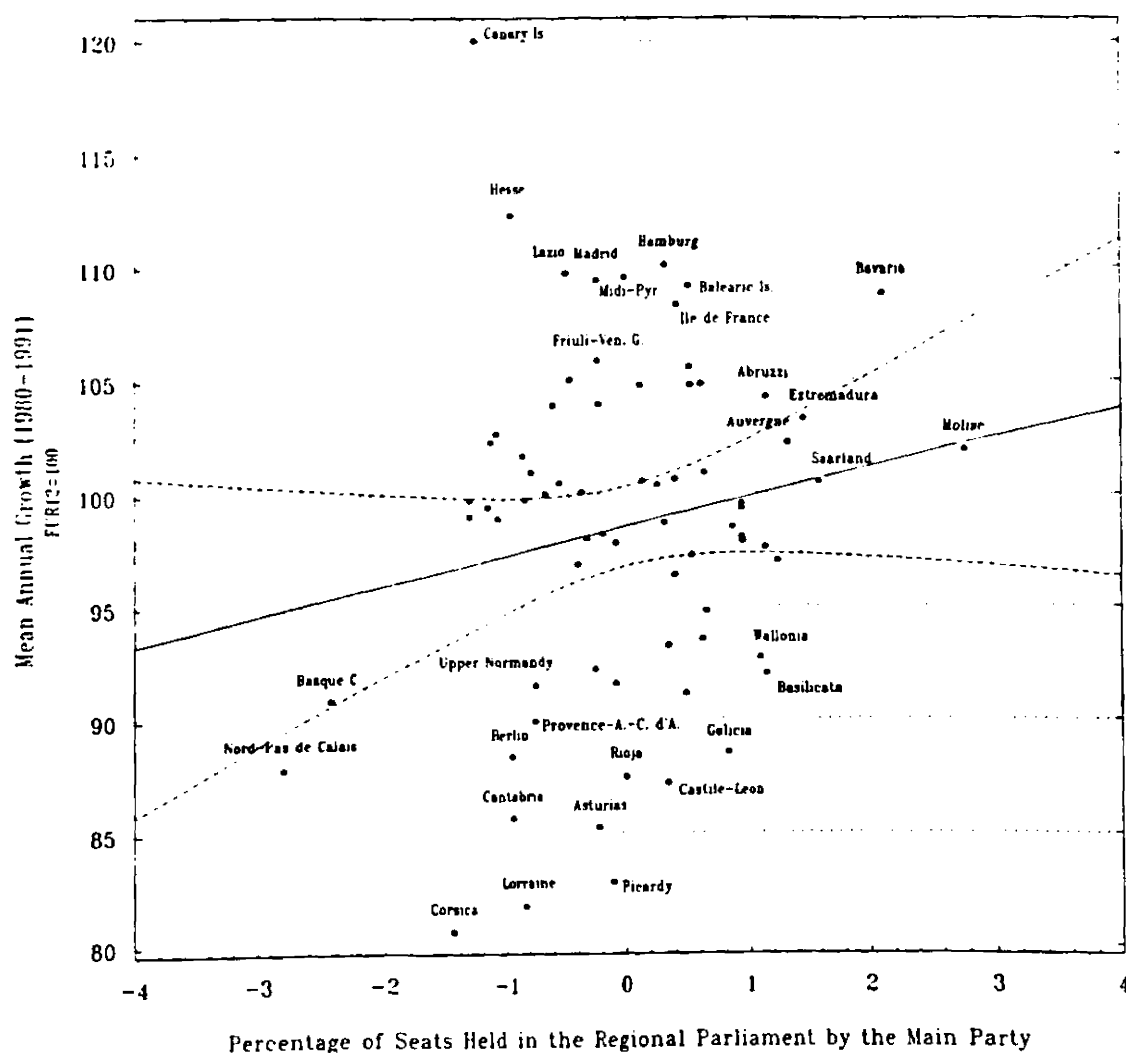


Table A.5

**Annual Rates of Regional Growth Regressed on the Political
Orientation of the Main Regional Party**

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
POLORMAI	.058	.120	.455	.929	.490	.625

$R^2=0.003$
adjusted $R^2=-0.011$
 $F(1,69)=0.240$

Figure A.5

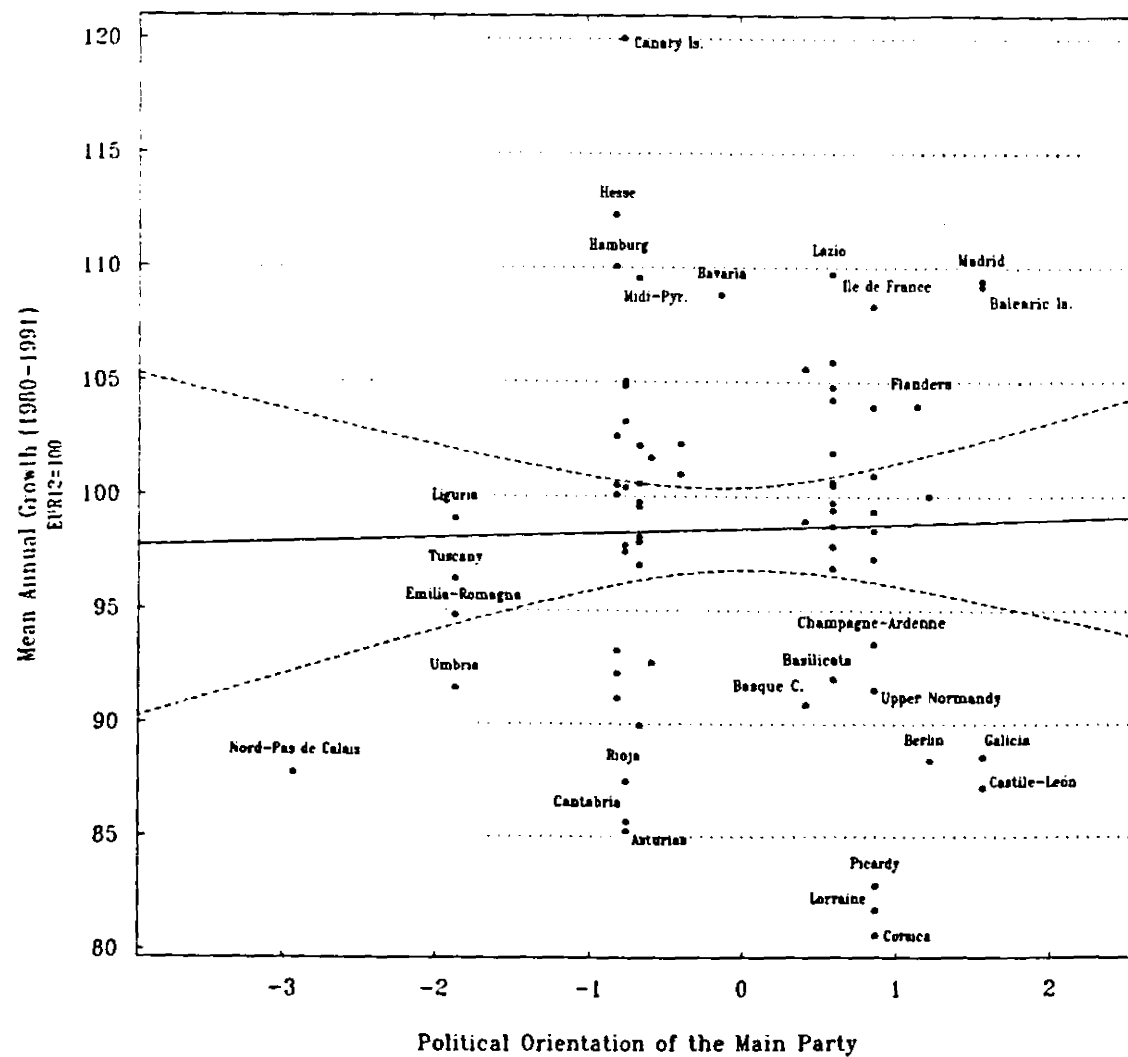


Table A.6

Annual Rates of Regional Growth Regressed on the Political
Orientation of the Parties in Office

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
POLOROFF	.113	.119	.904	.955	.946	.347

$R^2=0.012$
adjusted $R^2=-0.001$
 $F(1,69)=0.8963$

Figure A.6

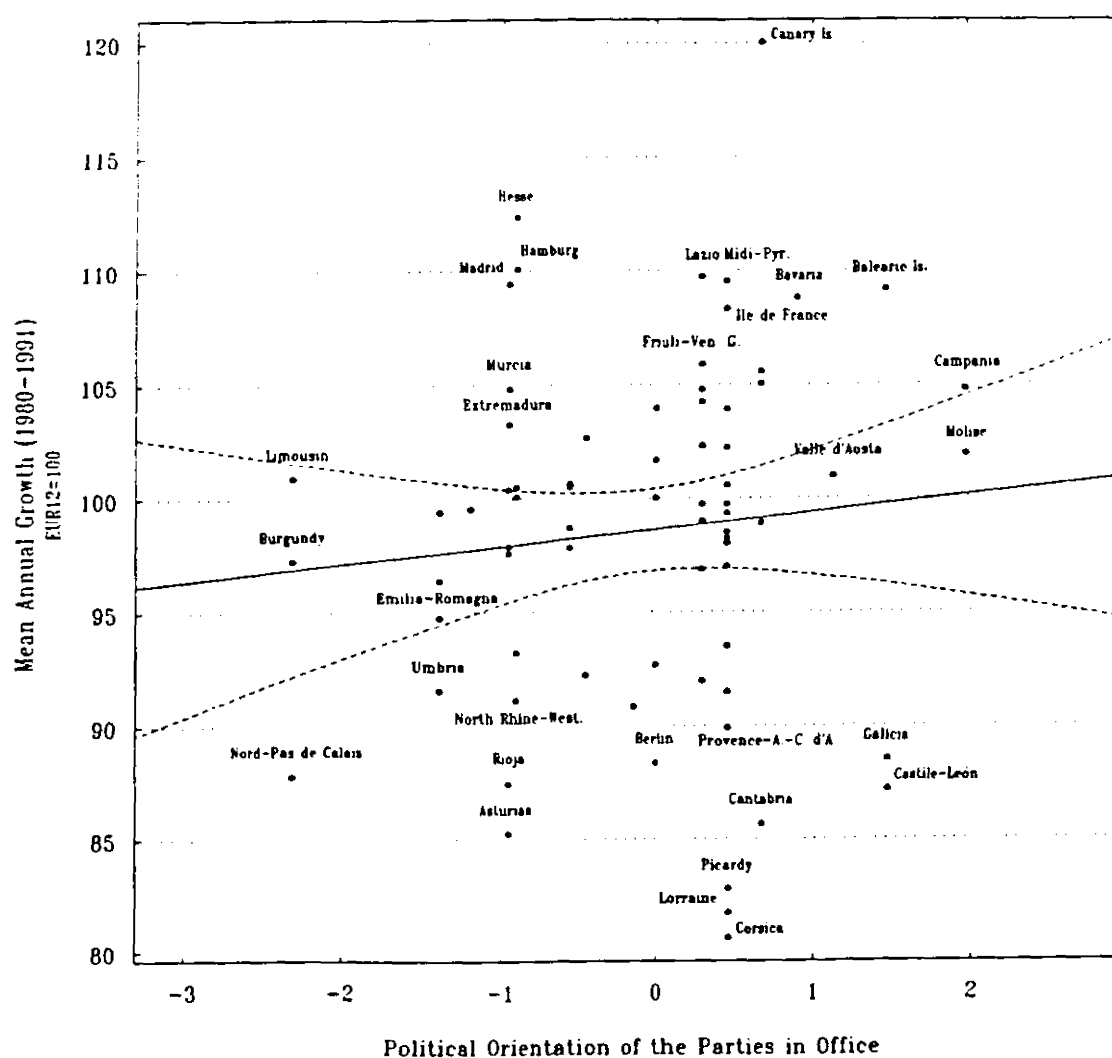


Table A.7

**Annual Rates of Regional Growth Regressed on the Political
Orientation of the President of the Regional Government**

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
POLOPRE	.055	.120	.431	.933	.462	.644

$R^2=0.003$
adjusted $R^2=-0.011$
 $F(1,69)=0.214$

Figure A.7

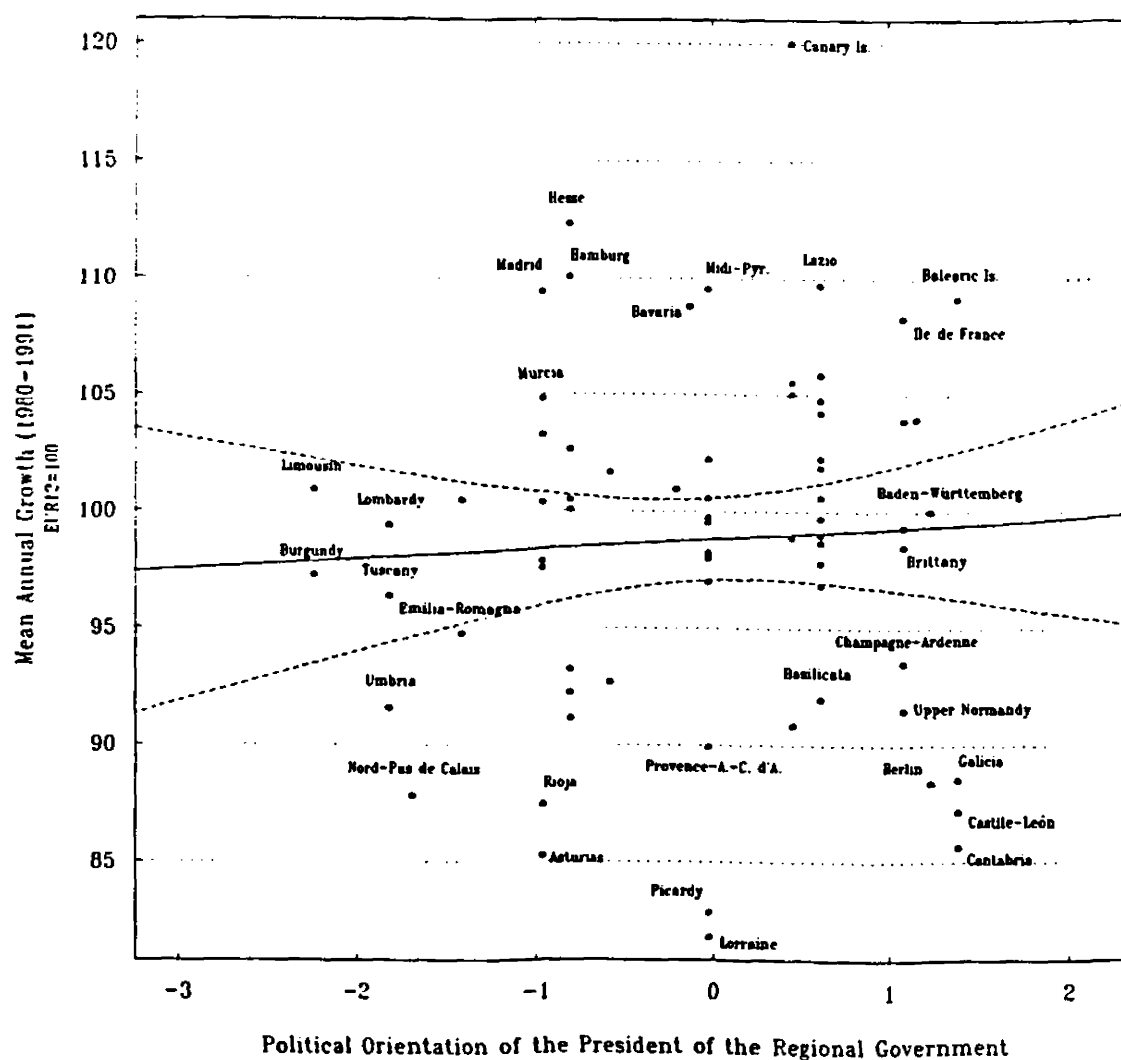


Table A.8

Annual Rates of Regional Growth Regressed on the Type
of Regional Government

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
TYPREGGO	.005	.120	.044	.906	.049	.961

$R^2=0.000$
adjusted $R^2=-0.014$
F (1,69)=0.002

Figure A.8

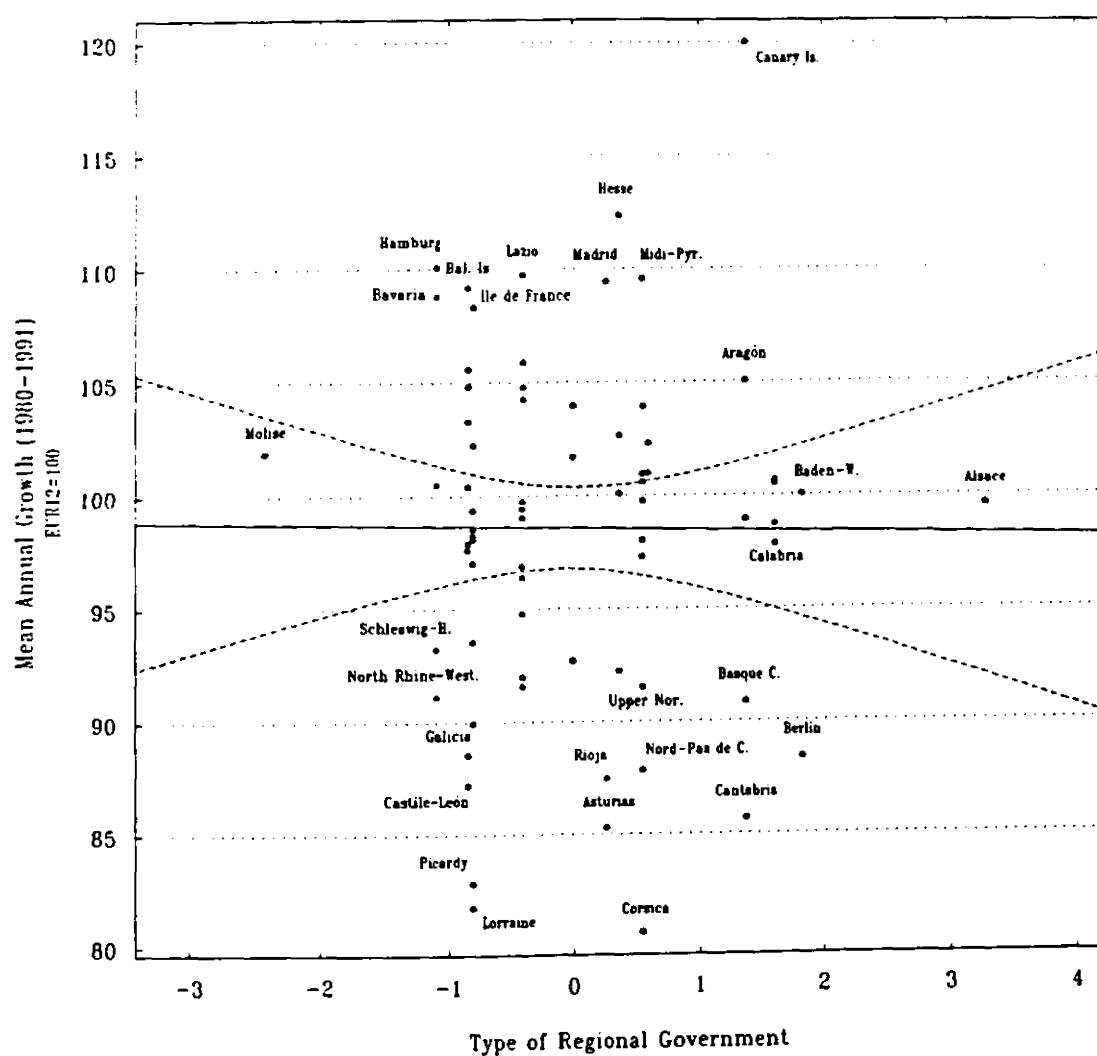


Table A.9

**Annual Rates of Regional Growth Regressed on the Link
Between the Regional and the National Government**

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
POLILINK	.024	.120	.195	.943	.207	.836

$R^2=0.012$
 adjusted $R^2=-0.001$
 $F(1,69)=0.8963$

Figure A.9

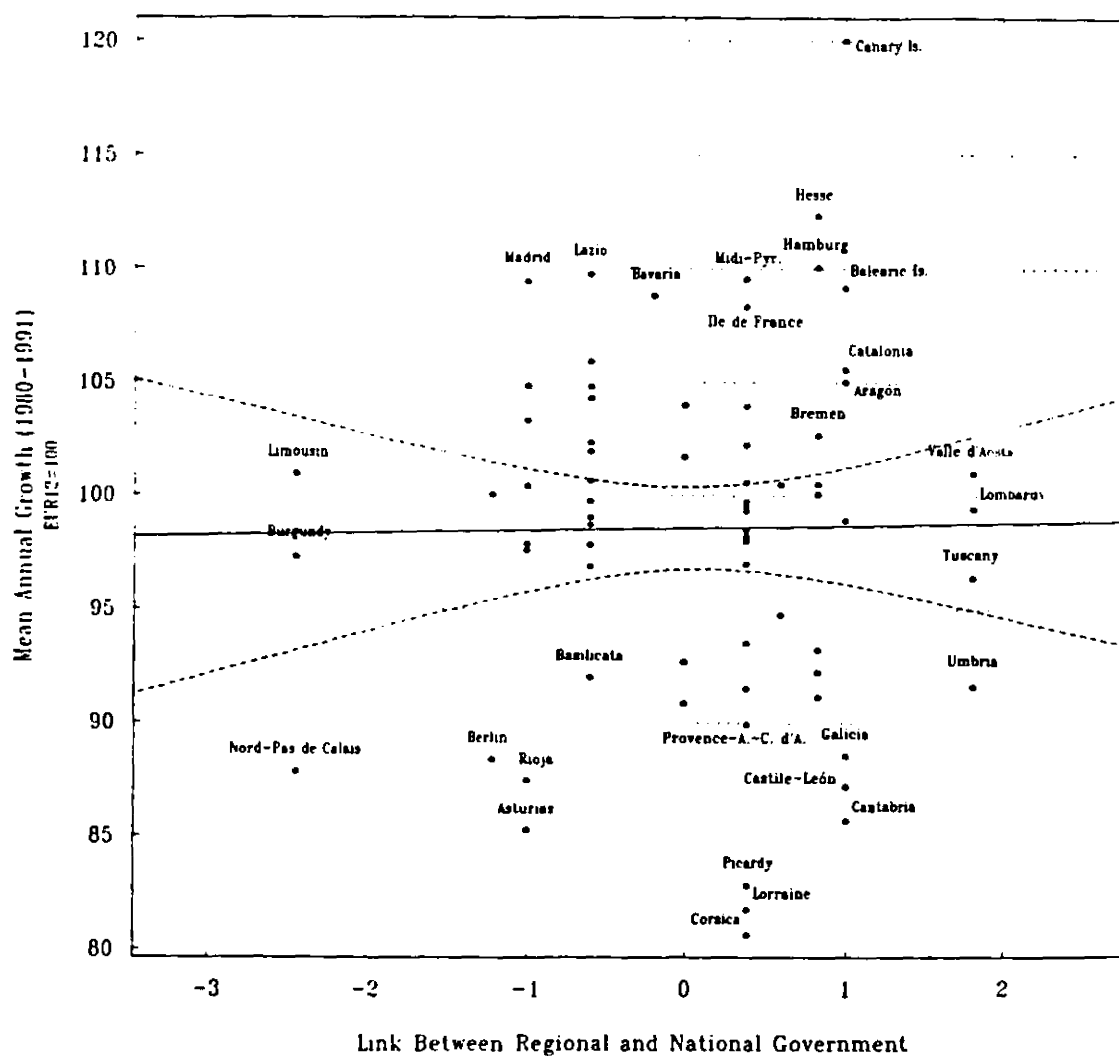


Table A.10

Annual Rates of Regional Growth Regressed on the Regional
Budget (measured in Ecus per capita)

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
REGIBUDG	.131	.119	1.110	1.010	1.099	.275

$R^2=0.017$
adjusted $R^2=0.002$
 $F(1,69)=1.208$

Figure A.10

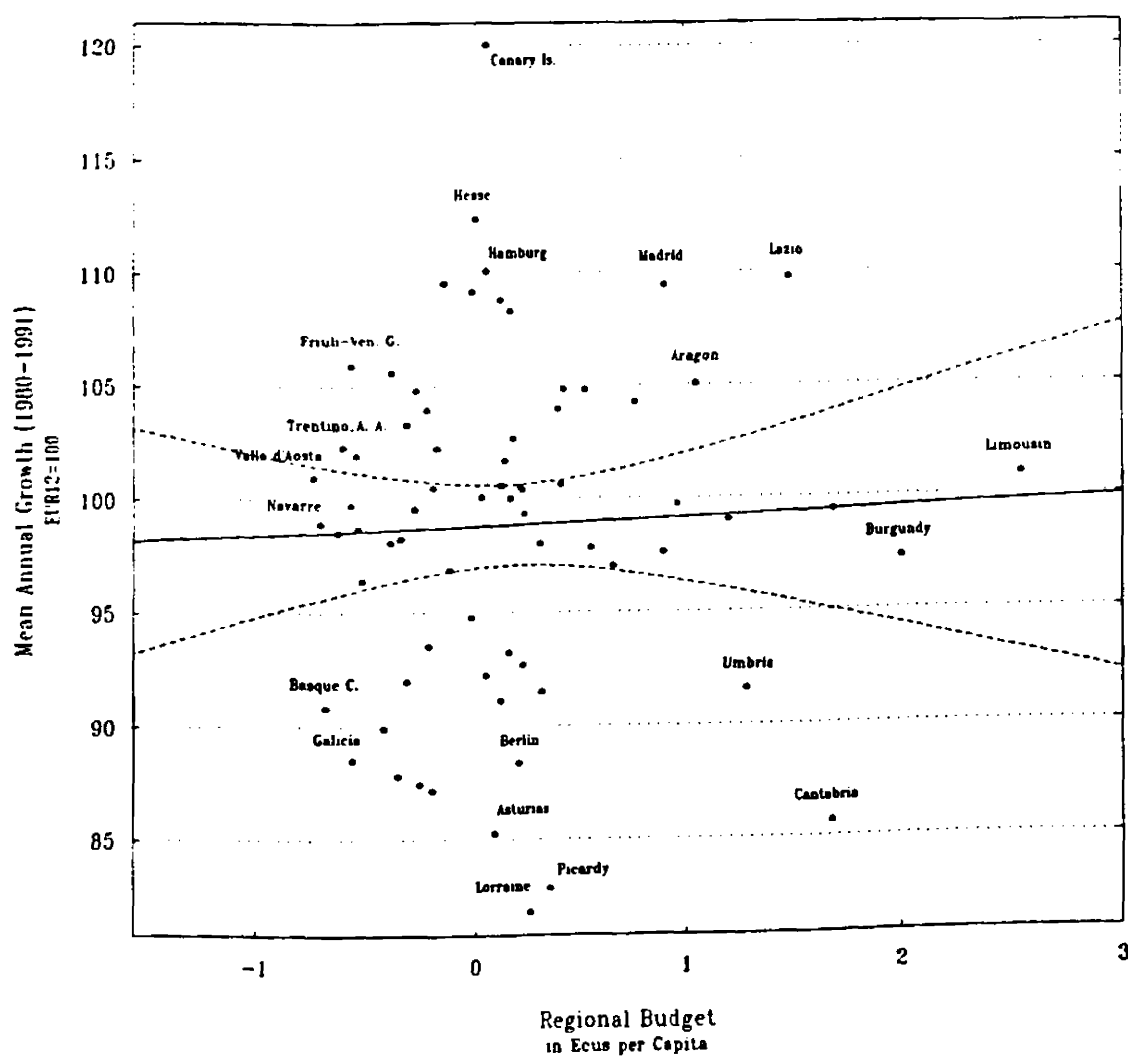
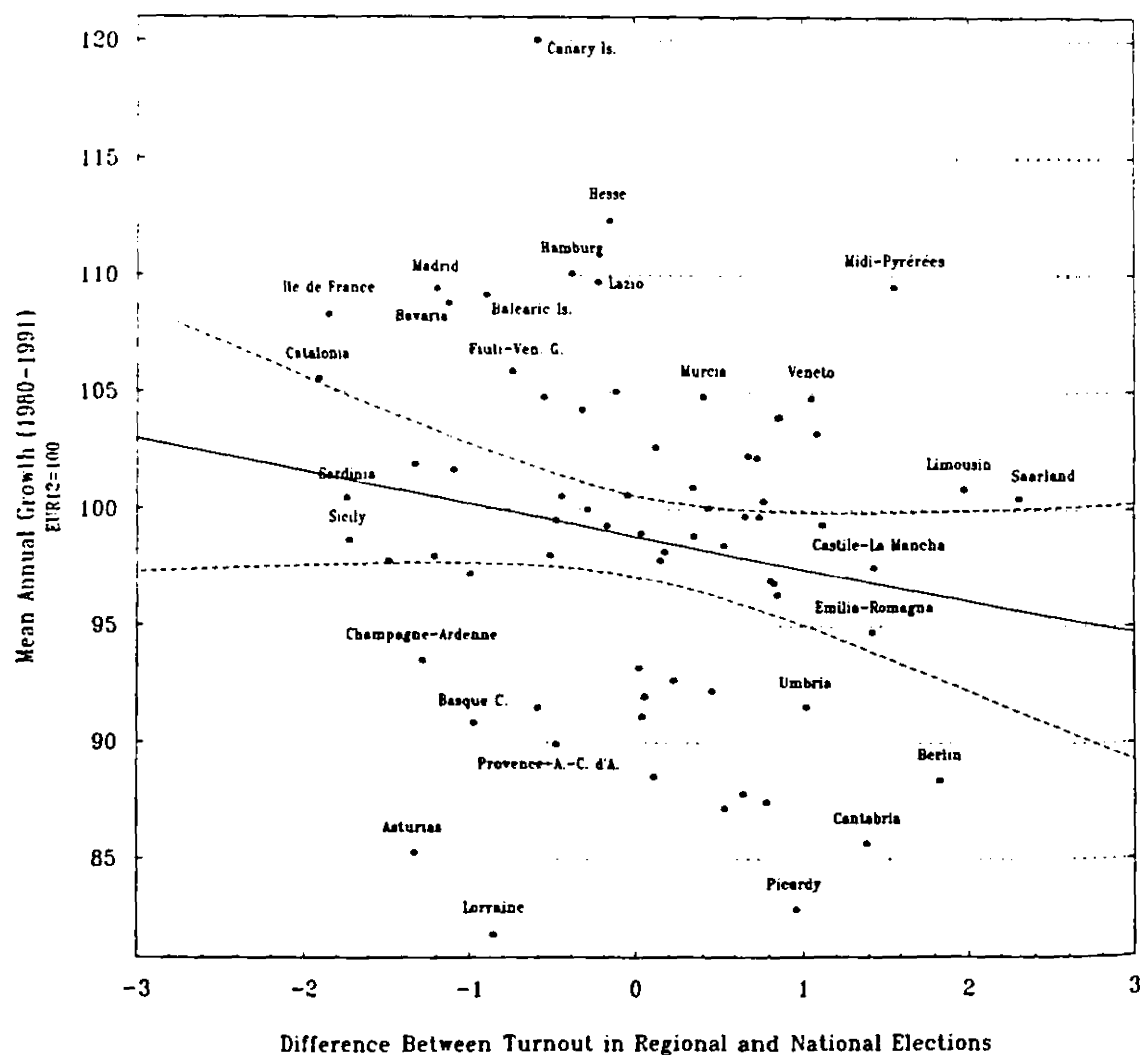


Table A.11

**Annual Rates of Regional Growth Regressed on the Difference
in Turnout between Regional and National Elections**

Variable	β	St. Err. of β	B	St. Err. of B	t(69)	p-level
REGTURNO	-.181	.118	-1.377	.896	-1.535	.129
$R^2=0.017$ adjusted $R^2=0.002$ F (1,69)=1.208						

Figure A.11



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